American Banker
SPECIAL REPORT

CONSUMER SURVEY 1987

FOURTH ANNUAL

How Americans View The Financial Services Industry

SURVEY RESULTS ♦ ANALYSIS ♦ EXECUTIVE TIPS

The Extra Measure.

Having grown with trust departments, Federated knows the difference operational and marketing support can make. That's why our *MultiTrust*℠ family of funds is backed by the "extra measure"—support systems that can enhance your ability to compete and succeed.

We've put advanced technology to work on your behalf. The Federated Network℠ trading and information system provides PC-based programs for faster transactions, increased information access, and improved reporting.

MultiTrust

Marketing support? Specially designed literature about our funds is always available for your customers' informational needs.

And for the ultimate in personal support, our marketing representatives and account administrators are devoted to understanding your needs, introducing new products and services, and providing timely and resourceful solutions to your problems or questions.

Currently, more than 30 MultiTrust funds are at work for trust departments nationwide. For additional information about how Federated can provide the extra measure of support for your institution, call toll-free 800-245-5040; in PA, 800-792-2340.

FEDERATED SECURITIES CORP.

Distributor

A wholly owned subsidiary of FEDERATED INVESTORS, INC.
One of the ÆTNA LIFE & CASUALTY companies

How the Survey Was Conducted

The American Banker*'s fourth annual survey on "How Consumer America Views the Changing Financial Services Industry" is based on 1,130 telephone interviews of a random cross section of the American public.*

Trans Data Corp., a Salisbury, Md., research affiliate of the American Banker*, developed the survey questionnaire in collaboration with the* American Banker*'s senior editors. Trans Data was solely responsible for the interviewing and preliminary analysis of the survey data.*

Interviews were made among a stratified random digit-dial sample, drawn so that all telephone-owning households in the continental United States, listed and unlisted, had a theoretically known chance of being selected.

Heads of households, coheads, and spouses of heads of households, 18 years of age and older, were eligible to be interviewed. All interviewing was conducted between May 13 and June 4. The typical interview lasted approximately 20 minutes.

The potential sampling error at a 95% confidence level for a survey consisting of 1,130 is a maximum of plus or minus three percentage points. That means that — if, for example, 60% of the public say something — there is a 95% probability that the actual percentage is between 57% and 63%. This margin of error applies to the total sample. Subgroups that consist of smaller sample sizes have greater margins of error.

Editor-in-chief: William Zimmerman
Consumer survey editor/American Banker associate editor: Laura Gross
Staff writers: Jay Rosenstein, Washington, D.C.; Jeffrey Kutler, New York; Michael Weinstein, Boston
Special projects coordinator: Patricia Stundza
Design director: Stanford Kay
Chartist: Teresa Berasi, Paragraphics
Copy editors: Jane Sandiford, Robert P. Molay
Production: Joseph Champey, Daniel H. Cowles, Dennis P. O'Connell

TABLE OF CONTENTS

THE BIG PICTURE

5 **Overview**
A wide gap separates consumer desires from commonly used bank marketing strategies.

9 **People Have Doubts About Health of Financial System**
Bad news about bank failures and bad loans has eroded confidence.

13 **People Are Unsure About the Bank Powers Issue**
Lacking strong public support, banks battle to win right to sell other products and services.

17 **As Banks Merge, Public Remains Calm**
Customers remain satisfied at financial institutions that have gone through mergers.

21 **Few Consumers Find Their Branches Closed**
But debate survives over whether poor or nonwhites are affected most.

CONSUMER PREFERENCES

24 **Middle Market Lines Up for One-Stop Shopping**
The affluent are more likely to trust specialists and to diversify in search of the best deals.

30 **Consumers Are Content with Quality of Service**
Americans care more about service, less about convenience and range of products.

37 **Why Switch Financial Institutions?**
Young people and affluent consumers are most likely to quit their most important financial institution.

THE COMPETITORS

44 **Sears' Retail Clout Helps Its Financial Network**
Muscle as a merchandiser has helped Sears launch its financial services business.

47 **Discover Card Doubles Its Base in One Year**
Sears' promotional spending pays off as more customers accept the Discover card.

51 **Consumers Say Sears Best Meets Their Needs**
Retailer is judged more responsive than other giants of the financial services industry.

54 **American Express Is Voted First Among Equals**
Industry watchers say the card's aura of practicality has been shaped by careful marketing.

BRANCHES AND BEYOND

59 **Appeal of Branch Banking Is Still Strong**
In an era of automated teller machines, the public still likes brick and mortar.

63 **A Quarter of Consumers Say Yes to Debit Cards**
Level of positive response is encouraging to the point-of-sale industry.

67 **Can Machines Win the Hearts of Consumers?**
Half the people surveyed show interest in doing business with an electronic terminal.

Special thanks to E. Laird Landon, president, Laird Landon Consulting Inc., Humble, Texas, for his valuable consulting assistance on this project.

Cover art: Stanford Kay

Fidelity Institutional Portfolios. Investment performance and diversification for today's trust market.

Fidelity Institutional Portfolios is a comprehensive investment management program designed to provide bank trust departments a convenient, cost effective way to meet the complex demands of today's trust market.

Comprised of a diversified line of no load equity, fixed-income, and money market funds, the program lets you choose among such funds as: Fidelity Overseas Fund, Equity Portfolio: Income, Fidelity Institutional Cash Portfolios, nine different bond funds, and several revenue sharing funds. The program frequently expands to include new investment options and services to help you respond quickly to changes in both financial markets and client needs.

Whether you use these funds as a package or individually to complement your existing investment management capabilities, your partnership with Fidelity Investments will provide proven investment management expertise, extensive operational and marketing support, and responsive client service.

For more complete information about the program, including fund prospectuses covering management fees and expenses, please contact your local Fidelity Institutional Services Representative or call Joseph T. Grause, Jr., Vice President, in our Boston office at 1-800-345-5033, extension 5525. In Massachusetts, call collect 617-570-5525. Please read the prospectus carefully before investing or sending money.

Fidelity Investments
Institutional Services Company

Fidelity Distributors Corporation, (General Distribution Agent), 82 Devonshire Street, Boston, MA 02109
Atlanta, Boston, Chicago, Dallas, Detroit, Houston, Los Angeles, New York,
Philadelphia, San Francisco, Sarasota

The Big Picture

Consumer desires are far apart from bank strategies ♦ Deregulation-era values are different than Depression-era values ♦ Confidence in the banking and financial system has declined ♦ Americans are split on allowing nonbanks and banks to diversify into each other's businesses ♦ Merged institutions keep most customers satisfied ♦ Few people have had their branches closed.

How 80 sq. ft. can return $160,000 a year.

Give us a little space. We'll build it into an investment delivery service center. Just look at the benefits.

First, our agreement is simple. You provide a desk near your customers. We do the rest.

Second, although we hire and train experienced personnel, you have the final word on who works in your offices.

Third, we pay a bounty for new business. Our investment executives are paid much higher commissions for non-customer sales.

Fourth, we can work with you to develop different versions of our standard investment delivery system.

Fifth, we are a completely independent company, with a multi-product inventory of highly competitive tax-advantaged insurance and investment offerings.

Sixth, each of our investment executives could make $160,000 or more per year–for your institution. So just by opening up a few feet, you could be miles ahead.

For more information, call our Director of Corporate Development. Nationwide, call: 1-800-24-PAMCO. In California, call: 1-800-45-PAMCO.

PAMCO

Securities and Insurance Services

16030 Ventura Blvd., Encino, CA 91436

The Gap

Consumer Desires Differ Widely From Bank Strategies

The 'human touch' is seen as preferable to machines and plastic in a sophisticated, deregulated era.

BY LAURA GROSS

If Americans could design their ideal bank, it would look nothing like what bankers are creating for them.

This is obvious from responses to the *American Banker*'s fourth annual survey of consumer attitudes about the changing financial services industry.

Conducted this spring, the national telephone poll of 1,130 households reveals several examples of how far apart consumer desires are from common bank strategies for a deregulated era. Among these:

- Consumers want to do their banking with people; bankers want them to use machines.
- Consumers like to shop among multiple financial institutions; bankers want them to consolidate all their business in one place.
- Consumers like checks and cash; bankers want them to use plastic at the point of sale.
- Consumers want to buy mutual funds, stock, and insurance from specialists; bankers want to sell them those products.
- Consumers are divided about mixing banking and commerce; bankers are pushing for elimination of barriers to competition.

The survey was conducted by Trans Data Corp., a Salisbury, Md., research affiliate of *American Banker*, the daily financial services newspaper.

Underlying the dichotomy between consumer attitudes and bankers' needs are forces neither can control.

For bankers, deregulation marked the end of a pro-

Laura Gross, American Banker associate editor, is the editor of this consumer survey.

"MIDDLE-MARKET CONSUMERS — IN HOUSEHOLDS WITH EARNINGS OF $20,000 to $40,000 A YEAR — ARE THE BACKBONE OF THE RETAIL BANKING BUSINESS."

tected franchise, where deposit interest costs were relatively stable and competition was of minor concern. Now, bank profit margins are choked by the need to pay market rates on deposits and charge competitive rates on loans. In order to survive, they must cut expenses and increase revenues. To most, that means streamlining and automating high-cost branch systems and driving as many new products as possible through existing facilities.

For consumers, the forces are more varied: A natural inclination for human beings over machines, the inertia of tradition, a higher level of education, a growing price sensitivity, the need to be smart shoppers, the sense that specialists are best. All of these add to the growing potential for conflict with bankers.

"Traditional financial services providers are in danger of fighting with their best customers," says Edward Furash, president of Furash & Co., a management consulting firm in Washington, D.C.

"All the new consumerist issues — credit card interest rates, mutual fund fees, truth in savings, usury ceilings, funds availability — are issues of the moneyed middle class, not the financially disadvantaged," explains Mr. Furash in a story beginning on page 37 about people who change their main financial company.

It is critical for bankers to address these issues, because middle-market consumers — in households with earnings of $20,000 to $40,000 a year — are the backbone of their retail business.

More people in that income range than any other say they have already bought mutual funds, stock, or insurance from a bank, even though most bankers intend these services for more affluent customers.

According to *American Banker* survey data revealed in a story about one-stop shopping for financial services that begins on page 24, nearly seven out of ten of the individuals who have purchased investment services or insurance from a bank live in households where the earnings are below $40,000 annually. Two-thirds of them are under 55, with a majority of those in the 25-to-39 age bracket.

Also, most of the people attracted to the idea of one-stop shopping for financial services are not the affluent many banks have been trying to lure with this strategy, the survey shows.

Among the 37% of respondents who prefer a one-stop approach there are nearly twice as many less educated and low-income people as there are well-educated individuals and high earners. Among the 59% who prefer to shop among a variety of providers the situation is reversed. Two percent of the public have no preference, and 2% are unsure.

"The more affluent people are, the more likely they are to shop the competition. The only thing that will get them to choose your bank as their lead supplier is expertise — and that is something banks are unwilling to pay to acquire," maintains Marilyn Barnewall, marketing consultant and president of the MacGruder Agency in Aurora, Colo.

The survey shows that only 6% of people in households where the earnings exceed $50,000 a year say they use one type of financial institution, compared with 11% who use two types, and 82% who use three or more.

It is likely that one of those three or more is a nonbank competitor, such as a Sears or an American Express. Chasing the affluent is something these companies are doing with success. Survey data in a story about Sears, Roebuck & Co.'s strides into financial services beginning on page 44 show that this year 84% of people with household incomes of $50,000 or more are aware of the Sears Financial Network, compared with 64% three years ago.

Awareness of Sears' 18-month-old Discover card is also strongly correlated with levels of income and education, the survey shows in a story about Discover beginning on page 47. Of those with household incomes of at least $40,000, 90% say they are aware of Discover, versus 81% of those earning less. The number of Discover cardholders doubled in only one year to 13% from 7% last year, the survey shows.

Sears continues to rank above eight other financial services giants as the one people say best meets the needs of typical consumers and is most in the forefront of change and innovation, according to an analysis of the competition that begins on page 51.

Among the most sought-after consumers — those who have an American Express card as well as Visa or MasterCard — American Express outpaces the bank

"THE COMING OF AGE OF THE BABY-BOOMERS IS CAUSING A WIDENING IN THE GAP BETWEEN CONSUMER ATTITUDES AND RETAIL BANKING POLICIES."

cards on a range of features, including inexpensiveness, prestige, high credit limits, restaurant acceptance, and for entertainment and travel, according to a story beginning on page 54 that compares the major cards.

Observers of the competitive financial services scene say that one way for banks to guard against incursions by nonbanking companies is to provide the sense of belonging and personal involvement people get from credit unions. For the fourth year since the *American Banker* began surveying the public, credit union members are the nation's most satisfied consumers of financial services, according to a story beginning on page 32.

A large component of that satisfaction is service quality, according to a story that begins on page 30. Good service tops the list of things consumers mention when they discuss what they like most about their main financial institution. Poor service tops the list of things people like least.

Attention to service quality can help consumers adjust faster to a merger or acquisition, industry leaders say. In a story about mergers and acquisitions beginning on page 17, survey data show that 25% of the public say there was a merger or acquisition of a financial institution they deal with in the past year, up from 20% who said that last year. More than half see no change in the institution, but fewer of those who have seen a change say there has been an improvement than said that last year.

What is Good Service?

However, it is difficult to determine just what people mean by service, most bankers say.

"It means something different to everyone," explains Norwood W. "Red" Pope, senior vice president of Valley National Bank, Phoenix.

Deregulation-era consumers may have a completely different notion of service than their Depression-era counterparts.

Survey research from Yankelovich Clancy Shulman shows there was a sharp drop two years ago in the number of consumers saying service had improved at banks.

"I don't think the lower marks banks got are due as much to a deterioration in service as to confusion over deregulation. There are so many things to choose from, and there just isn't any good information available," says Ann Clurman, senior vice president at Yankelovich, a marketing and consulting firm in Westport, Conn.

The achievement of higher education levels has made the availability of in-depth information a critical part of purchase decisions for the baby-boom generation, people who today are 23 to 41 years old.

In the *American Banker* survey, people 25 to 39 represent the heart of the baby-boom generation, a group whose values, beliefs, and behaviors differ markedly from those of their Depression-era parents. The coming of age of the baby-boomers is causing a widening in the gap between consumer attitudes and retail banking policies.

"You can't overestimate how important it is that you are dealing with a very well educated group here. These are the people who pride themselves on the fact that they know how to beat the system. They think they can make things happen," says Ms. Clurman in the story about changing main financial suppliers.

"They are in tune with what's in and out of fashion. They talk about a lot of their personal business with their peers. They discuss what to do with their money, and they aren't particularly loyal becuse they don't see that as smart or strategic," she says.

Looking for Value

The survey shows that these individuals are a notably price-conscious group; they like to shop around. They also account for a disproportionate percentage of the 10% of the public who report having left their main financial institution for someplace else in the past 12 months, according to the story about people who change their main financial companies.

More baby-boomers favor the convenience of one-stop shopping for financial services than people 40 to 64, but the majority still prefer to do business with a variety of suppliers.

"They are spread out up and down Main Street," says Al Paro, director of advertising for the American Bankers Association.

"A DECLINE IN CONFIDENCE SPELLS MORE BAD NEWS FOR BANKERS WHO ARE PUSHING ONE-STOP SHOPPING."

This bent for multiple providers flies in the face of relationship pricing strategies, which use discounts and incentives to get consumers to consolidate all of their financial business in one place.

It is important to please these people, because they are the market segment that most readily accepts the new technologies bankers say are essential to reduce delivery costs.

In a story about branch usage beginning on page 59, the *American Banker* survey shows that members of the baby-boom generation — those born after World War II — find it easier than other people to bank by machine. People 25 to 39 years old have substituted automated teller machines for branch banking with greater frequency than any other subgroup.

According to the survey, 18% of the public visit a branch less today than they did two years ago to conduct a transaction with a teller or other employee. Of those people, 45% say they have substituted machines for personal transactions.

Among the public, 67% say they go to the bank just as much as they used to and 14% say they go more, a third of them because they make more deposits.

Machine Friendly

Affluent baby-boomers from dual-income homes are more likely than any other group to be intrigued by the idea of using customer-activated terminals to access a variety of information and transaction services. According to survey data in a story about these new machines that begins on page 67, 71% of these time-conscious consumers say they would definitely, probably, or maybe use self-service machines. Of those, 50% say definitely or probably, compared with 29% of the public as a whole. They are also strongly represented among the quarter of the public who say they would be willing to use a debit card to pay electronically for retail goods and services where at the point of sale. Survey findings in a story about consumer willingness to use debit cards beginning on page 63 show that acceptance of debit cards, like other new technologies, increases with income and education and decreases with age.

The willingness of younger generations to try something new is a double-edged sword for bankers. They will be just as willing to try some other company's new idea as a bank's.

But consumers under the age of 40 represent the strongest proponents of deregulation in America today. More than half vote to allow banks to offer new services and to let companies other than banks into the banking business, according to a story on the separation of banking and commerce that begins on page 13.

The opposite is true of more conservative Depression-era consumers over the age of 55. Fewer of them vote in favor of granting banks new powers and letting nonbanks into the banking business.

Behind that vote, say industry observers in a story about stability of the banking and financial system that begins on page 9, lies the fact that older Americans have lost confidence in the system. More than two-fifths of consumers 40 to 64 years old report that they have less confidence this year than they did last year; that compares with about a third of the overall public reporting less confidence.

Health of the System

Americans over the age of 40 also tend more than younger consumers to call the banking and financial system unhealthy. Their feelings fueled an overall decline in the number of people calling the system healthy to the lowest level in the four years since the *American Banker* began polling consumers. Also, the number who say the system is unhealthy has increased to the highest level.

People who call the system unhealthy most often cite a sense of unease over bad loans and defaults. Second most often, consumers say the economy is not doing well, and third, they cite the fact that many banks and thrifts are failing.

Consumer fears about the security of their funds and the stability of the system could delay progress on the elimination of barriers separating banking and commerce. At the same time, a decline in confidence spells more bad news for bankers who are pushing one-stop shopping, industry observers say.

"On a macrosocial level, a loss of confidence may mean a slowing down of bank deregulation or even a reimposition of some regulations. On the individual side, it means diversification," says Richard T. Curtin, director of consumer attitude surveys for the University of Michigan's Institute for Social Research, Ann Arbor.

"If people are more conscious of problems in the system," Mr. Curtin says, "it means they won't want to put all their financial assets in one place." □

People Have Doubts About Health of Financial System

Most still have confidence, but specific problems create unease

BY LAURA GROSS

The continued bad news about the banking and financial system seems to be eroding consumer confidence, according to the *American Banker*'s latest national consumer opinion survey.

The number of people calling the system healthy has declined to the lowest level in the four years since the newspaper began polling consumers, and the number who say the system is unhealthy has increased to the highest level.

This year, two-thirds of those surveyed say they think the banking and financial system is healthy, compared with three-fourths who felt that way last year and in 1985. More than one in four consumers sees the system as unhealthy, up from one in five who felt that way last year.

The reason most often given for calling the system unhealthy is a sense of unease over bad loans and defaults. Second most often, consumers say the economy is not doing well; and third, they cite the fact that many banks or savings and loans are failing.

There has also been an increase to 34% from 27% in the number of people who say they have less confidence in the banking and financial system today than they did a few years ago. This has been accompanied by a decline to 15% from 20% in the number saying they have more confidence today.

Despite this clouding in their outlook, most Americans maintain faith in the banking and financial system, with 84% saying they have either a great deal of confidence or some confidence. Only 13% say they have very little or no confidence. That is up slightly from 12% last year, fueled by an increase to 16% from 11% in westerners reporting this perspective.

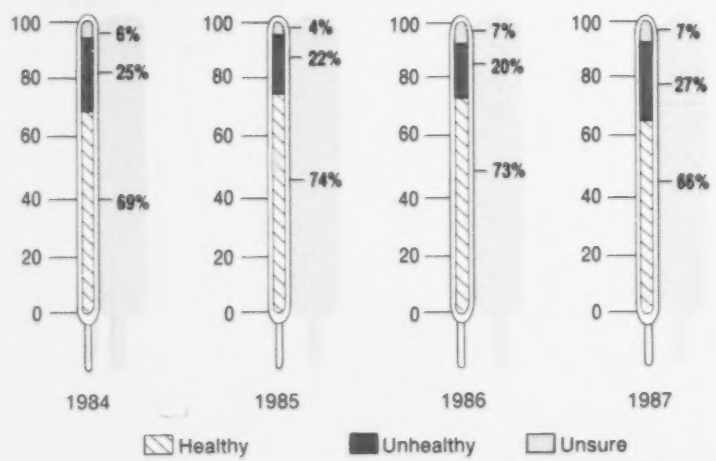
There have been increases in every area of the country in the number of people who say the system is unhealthy, but this attitude appears to have spread most in the Northeast and the South, which includes Texas and Oklahoma, locales plagued with energy, farm, and real estate problems. In the Northeast, 25% call the system unhealthy, compared with 15% last year. In the South, 29% say it is unhealthy, compared with 18% last year.

While consumers' sense of the system as healthy suffered most in the Northeast and South, the declines in confidence were greatest in the Northeast and West, with 30% in the Northeast saying they have less confidence today, compared with 23% last year, and 38% in the West saying less confidence, compared with 24% last year.

Faith in System Remains Strong

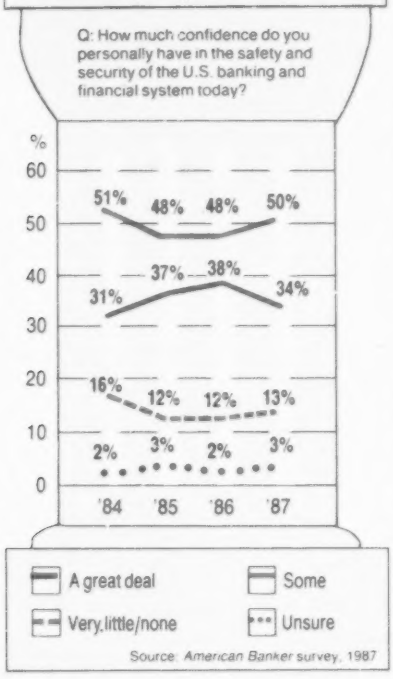
Industry leaders say that, taken together, the findings indicate a strong degree of faith in the system, despite an erosion of confidence brought on by increased publicity about specific problems. Among those they mention most are the

More People Call Banking and Financial System Unhealthy



Source: *American Banker* survey, 1987

Confidence In Financial System Takes a Dip



problems of individual banking companies such as Bank of America, Financial Corporation of America, and the numerous Texas and Oklahoma banks and thrifts hit hard by the energy and real estate busts in those states.

Also, these observers mention insider trading scandals and the fact that, in the weeks just prior to the survey's completion this spring, Citibank and other major banking companies added billions of dollars to their reserves to cover potential losses on loans to lesser-developed countries.

"Given all the publicity surrounding the LDC debt writeoffs, the problems of the S&L industry and the well-publicized woes of the Federal Savings and Loan Insurance Corp., it's hard to imagine public confidence in the system going anywhere but down," says William M. Isaac, former chairman of the Federal Deposit Insurance Corp. and now managing director of the Secura Group Inc., an investment banking and management consulting firm in Washington, D.C.

Following almost two years of public debate, Congress authorized the insolvent FSLIC this past July to raise $10.8 billion on the bond market over the next three years.

Mr. Isaac's perspective about the impact of such matters on consumer attitudes is shared by other observers, one of whom adds that publicity itself can cause declines in confidence.

Public Is Aware of Weakness

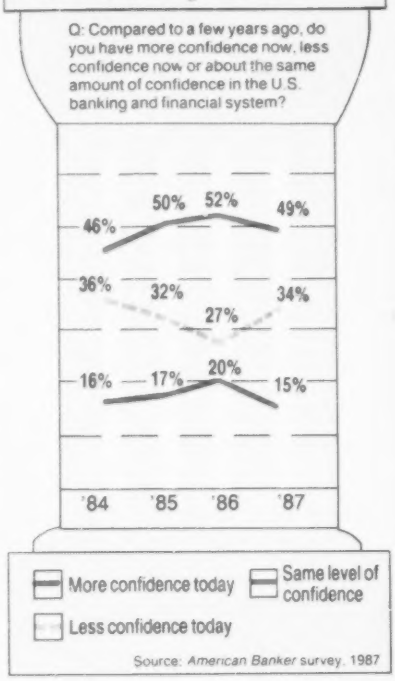
"For many years, the health of and confidence in the banking industry were taken for granted and were not the focus of public attention," says Mark Olson, president of the American Bankers Association, and of Security State Bank of Fergus Falls, Minn.

"Publicity about the thrift crisis, the problems of farm banks, and the write-downs for Third World debt call attention to problems in the public's mind, even though the problems may have not gotten any worse," says Irving Leveson, senior vice president and director of research for the Hudson Strategy Group, a New York-based subsidiary of the Marsh & McLennan Cos.

Mr. Leveson notes that confidence levels did not dive as much in the North Central states as in the Northeast and West. He says this is because there has been ongoing publicity about the farm-debt crisis in the North Central states — and there were even some improvements in that situation just before the survey was completed.

Headlines about widespread insider trading scandals and writeoffs of loans to developing countries would have had a greater impact on this year's survey results in the Northeast, he thinks, because they were new. The same, he says, goes for media coverage of the problems of

Consumers Less Sure About Banking and Financial System



the Bank of America, a well-known name throughout the West; the Texas thrift institutions; and banks in the South with bad energy loans.

A comparison of *American Banker* survey responses from the past four years on the issue of bank and thrift failures lends support to that perspective. In 1984, when rising failures were a relatively new phenomenon, 10% mentioned them as a cause for concern, compared with 6% today, even though more failures are occurring than ever before.

So far, 122 banks have failed in 1987, more than at this point last year. Failures have escalated in recent years, and in 1986 a record number of 138 banks failed. Authorities expect the figure could reach as high as 200 this year.

VOICE OF THE CONSUMER

"THE BANKING SYSTEM WILL NOT REACH ITS POTENTIAL UNTIL THE UNEMPLOYMENT CRISIS IS OVER."

— Young high-income black entrepreneur from a Michigan city

Survey data from other pollsters show mixed results on consumer confidence. The *American Banker*'s results can be correlated only generally with those of other organizations because most analyze people's feelings about the economy, not about the banking and financial system.

The Conference Board confidence index is at its highest level in two and a half years, and the Roper "good time to buy" index indicates only a "slight softening in the economic ebullience that existed a year ago," according to Burns W. Roper, chairman of the Roper Organization Inc., New York. The index measures consumer attitudes about making major purchases.

Consumers still project "a continuation of good times — not better times — but still, good times," says Richard T. Curtin, director of consumer attitude surveys for the University of Michigan's Institute for Social Research, Ann Arbor.

At the same time, however, he says there has been a decline in consumer confidence in government economic policy. It was rated good by 33% of the public in June 1986, but that figure dropped to 23% one year later.

This decline in confidence also surfaced in proprietary studies by Furash & Co., which show that the safety and security of the financial system is of growing concern to bank customers.

"People increasingly mention the value of federal deposit insurance, increasingly question how much money they should keep in any one institution, and are increasingly concerned not about whether they'll get their money back in the event of any problems, but how long it will take," says Edward Furash, president of the Washington, D.C.-based management consulting firm.

VOICE OF THE CONSUMER

> "THE U.S. BANKING SYSTEM IS GOING THROUGH A ROUGH TIME, BUT THEY'RE STICKING IN THERE."
>
> *— Young middle-income professional from suburban Iowa*

Confidence Seen as Superficial

One reason for the dichotomy in research findings, according to David Reichman, president of Reichman Research in New York, is that "the confidence that exists is a very superficial kind of confidence."

He reports that his firm's poll of 1,000 people done this spring for the International Association of Financial Planners, Atlanta, found two things: "short-term contentment and long-term uncertainty, insecurity, and fear.

"For the first time, a plurality of people feel financial opportunities for the next generation will be worse," Mr. Reichman says. He attributes this finding to the fact that "people feel the economy itself and the private sector — banks and people themselves — have been mortgaging their futures through the trade deficit, the budget deficit, and the high level of debt."

He says people frequently mentioned the trade and budget deficits as causes for concern in the planners' survey. Consumers also expressed anxiety over the twin deficits in surveys this year by the Gallup Organization, Princeton, N.J., according to Jay Schmiedeskamp, senior vice president.

An underlying pessimism can be detected in the *American Banker* survey data. The number of people with some confidence in the system, who also say they have less confidence than they used to, has increased to just under half in 1987 from less than two-fifths in 1986.

The groups with the least confidence in the system tend to be nonwhites, people without high school diplomas, and those who live in rural areas. In the past year, confidence declined more among people in small towns and rural areas than among city dwellers, the survey data show.

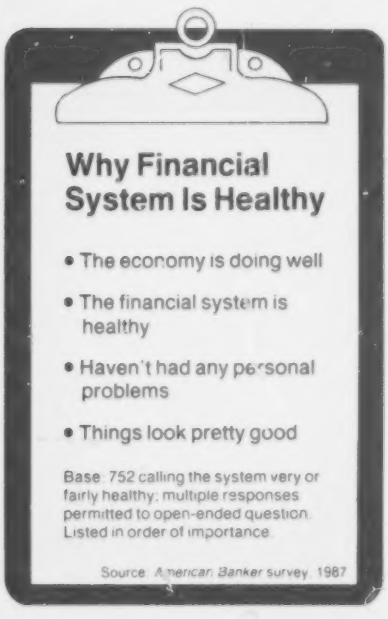
One reason for this finding could be that these groups have been hit harder than others by events occurring over the past year, suggests C.C. Hope, director of the Federal Deposit Insurance Corp.

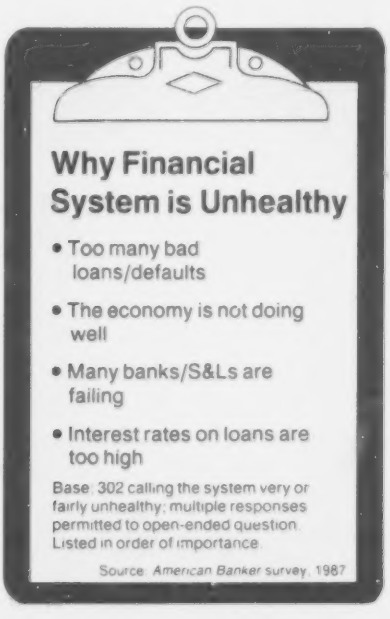
"Something that happened may have been more important to them," he says.

"When you have a bank that closes in a small town, it really does hit home. Everyone knows about it. You don't get that same reaction in a major city," Mr. Hope says.

People who may already use the banking and financial system less than others — who call credit unions their principal financial institutions and who use brokerage firms and mutual fund companies — are more inclined than the general public to see the system as unhealthy.

Consumers tend to project their own experiences with financial institutions when they are asked how healthy they


Why Financial System Is Healthy
• The economy is doing well
• The financial system is healthy
• Haven't had any personal problems
• Things look pretty good
Base: 752 calling the system very or fairly healthy; multiple responses permitted to open-ended question. Listed in order of importance.
Source: American Banker survey, 1987


Why Financial System is Unhealthy
• Too many bad loans/defaults
• The economy is not doing well
• Many banks/S&Ls are failing
• Interest rates on loans are too high
Base: 302 calling the system very or fairly unhealthy; multiple responses permitted to open-ended question. Listed in order of importance.
Source: American Banker survey, 1987

VOICE OF THE CONSUMER

"I DON'T FEEL PEOPLE ARE SAVING THE WAY THEY USED TO. THEY ARE LIVING MORE HAND TO MOUTH, MORE FOR THE PRESENT THAN THE FUTURE."

— Middle-aged, low-income college graduate from a small Georgia town

think the system is and how much confidence they have in it. Almost half of those who are not satisfied with their own principal financial institutions call the system unhealthy, compared with 22% who say they are very satisfied and 32% who are somewhat satisfied.

Wealthy Say System Is Unhealthy

The data indicate that the people who are most important to the system tend most to regard it as unhealthy. Consumers with annual household incomes of $75,000 or more, those with graduate degrees, and those who live in the suburbs are more likely than the average consumer to characterize the system as very or fairly unhealthy.

"Should this trend continue, we see an increasing amount of diversification by consumers in their financial holdings to limit their exposure in any one institution," Mr. Furash predicts.

Another consequence of declining consumer confidence, Mr. Curtin says, may be a demand for "a slowing down in bank deregulation or even a reimposition of some regulations."

At this point, however, despite their increased pessimism, most people still retain some confidence, a fact that prompts several observers to applaud the stability of the American banking and financial system.

"We've had more bank failures thus far this year than last, and last year there were a record number; but you don't find dramatic runs occurring all over the country on banks or savings and loans," Mr. Hope says.

"People may have less confidence, but they know that we have a system that looks after insured depositors," he adds.

Given the widespread publicity about the insolvency of the FSLIC, "the fact that the public, with some exceptions here and there, didn't get panicky about it, and stayed in the system," is a major triumph in the view of Mr. Isaac of the Secura Group.

"To me that's the good news," he says. "That's more of a story in my opinion than the fact that another 5% of the people got nervous." □

EXECUTIVE TIPS Suggestions for how to make *American Banker's* survey data work for you

How to . . . Bolster Consumer Confidence

□ Satisfied consumers have more confidence in the banking and financial system . . .
- so make every effort to meet customer expectations
- and let employees know that the health of the system depends on how they treat people.

□ Consumers get uneasy over disparaging major media news reports about financial events . . .
- so influence major media to report the good news, too
- be prepared to advertise, not just rely on free publicity
- educate local news media about banking and financial issues.

□ Young adults are more confident about the financial system than older folks . . .
- so use them as spokespersons
- and run informational spots on the television and radio shows they like in order to reinforce their optimism.

□ A third of high earners see the system as unhealthy . . .
- so run seminars to allay their fears
- when problems occur in your community — such as a local bank failure — act quickly to calm fears of big depositors
- use telemarketing to get their opinions on key issues.

Thanks to the following people for contributing to the executive tips at the end of each story . . .

Michael P. Sullivan, President
Michael P. Sullivan Associates
Charlotte, N.C.

Paul Willax, President
Erie Savings Bank
Buffalo, N.Y.

Leonard L. Berry
Professor of Marketing
College of Business Administration
Texas A&M University
College Station, Texas

Laird Landon, President
Laird Landon Consulting Inc.
Humble, Texas

James Donnelly
Professor of Marketing
College of Business Administration
University of Kentucky
Lexington, Kentucky

Chuck Hinkle
Professor of Business Strategy
University of Colorado
Colorado Springs, Colorado

People Are Unsure About the Bank Powers Issue

The lack of strong public demand means the banking industry faces another uphill battle

BY JAY ROSENSTEIN

American consumers remain split on the issue of whether banks and nonbanking firms should be allowed to diversify into each other's business, according to the *American Banker*'s latest consumer opinion survey.

According to the national poll, 41% of the public say banks should be permitted to offer financial services they have been prohibited from offering in the past, such as selling insurance and real estate. But 49% say they oppose letting banks expand into these areas.

On the question of allowing companies other than banks to get into the banking business, 40% say yes and 45% vote against the idea.

Congress is on the verge of another round of hearings and votes on whether banks should be permitted to offer more financial services. A moratorium barring new securities, real estate, and insurance powers for commercial banks will expire March 1, 1988. The freeze is intended to give lawmakers time to consider revamping the financial services industry.

Meanwhile, the absence of a nationwide consensus on the issue of extended bank powers could mean more tough times for bankers who want to be able to sell new products and services.

Observers say that without strong public demand for new banking powers, lawmakers will continue to be faced with a turf war among competing industries. To date, that war has been dominated by the strong forces of the insurance, securities, and real estate industries. They oppose the entry of banks into their fields.

Adding to bankers' problems is the finding that while consumers are split on the issue of banking deregulation, slightly more of them say they oppose letting banks offer new services.

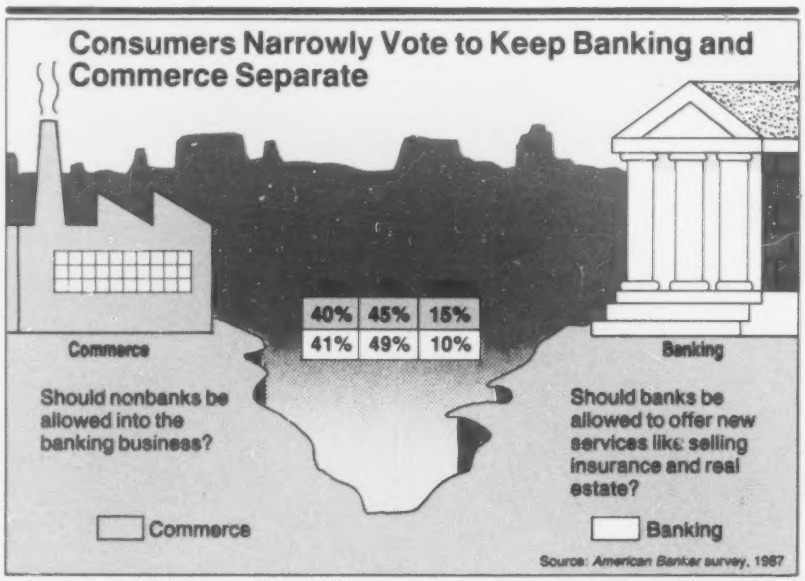
"In general, when you have this kind of division, you are more likely to stick with the status quo," says Sen. William Proxmire, D-Wis., chairman of the Senate Banking Committee. The Wisconsin senator adds that it will be especially tough for bankers to get approval from Congress to expand into real estate and insurance sales.

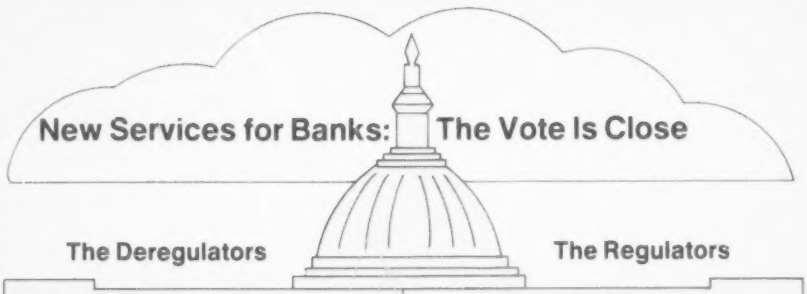
"Frankly, the number of insurance agents, from a political standpoint, makes it unrealistic to expect banks to move in [to insurance sales] as a national policy. Maybe they will be able to do that in certain states, as they have in Wisconsin but, on a national basis, I think that's not realistic," he says.

Mr. Proxmire has urged his committee to allow banks greater leeway to sell other financial services. He says Congress would be most likely to authorize banks to underwrite mortgage-backed securities, municipal bonds, and mutual funds.

Ken McEldowney, executive director of the San Francisco group Consumer Action, cautions that the issue of new banking powers "is probably not something consumers have thought that much about or care much about."

He adds, "These are the types of issues





New Services for Banks: The Vote Is Close

The Deregulators

Forty-one percent of the public thinks banks should be able to sell insurance, real estate, and other new services. These groups are more willing than others:

• Nonwhites	64%
• Those favoring nonbanks in banking	62%
• People 25-39 earning over $40,000	56%
• Consumers favoring one-stop financial shopping	54%
• Suburbanites	52%

The Regulators

Forty-nine percent of the public thinks banks should be prohibited from offering new, nonbanking services. Those most reticent:

• People who oppose nonbanks in banking	68%
• Consumers 55 and older	59%
• Those who like using more than one financial institution	59%
• People with little or no confidence in the banking system	58%
• Residents of rural areas and small towns	56%

Source: *American Banker* survey, 1987

that will be fought out by the big, moneyed interests. I can't imagine any of those forces being able to mobilize the populace on these issues like a few years ago, when bankers were able to get people to send in zillions of postcards against withholding of [tax on] interest income."

Donald Ogilvie, executive vice president of the American Bankers Association, adds that while the nation may be unsure about letting banks sell other financial services, there is "a growing awareness among the legislators on the House and Senate banking committees that these laws are badly in need of an overhaul."

He adds, "I would think the Congress would look favorably on the fact that, from your survey, almost half of the consumers in America are in favor of new powers for banks. I think that's a positive sign and I think it will continue to grow."

In the *American Banker* surveys of 1984 and 1985, fewer consumers — about a third — said it was a good idea to let banks offer new services. The 1987 survey seems to indicate that there may have been a slight increase in public support for this form of deregulation in the past few years, but the data are not directly comparable because the questions asked in the latest survey differ from earlier ones.

Banking industry officials say they sense an increase in public support for expanded powers in recent years. Joe Belew, president of the Consumer Bankers Association, attributes that change in part to the recent controversy over regulation of limited-service banks, or nonbank banks, owned by diversified firms.

After years of debate, Congress passed the Competitive Equality Banking Act of 1987 this July, permitting more than 160 existing nonbank banks owned by firms such as Sears, Roebuck and Co. and American Express Co. to stay in business, but with restraints on growth and activities.

"The fact that there has been a debate over who gets to sell what in the way of financial products has raised public awareness that banks are facing more and more competition" and is leading more people to favor giving banks expanded powers, according to Mr. Belew.

Impressions More Than Analysis

Financial industry officials and consultants generally agree that banking deregulation is a complex issue that the public has not grasped in its full implications. They say this means that opinions may be based more on emotions and superficial impressions about banks or deregulation, than on careful analysis.

"People find it difficult to concentrate, conceptualize, and visualize that with which they are not familiar," says Justin L. Moran, a banking consultant in Ann Arbor, Mich. "Whether we're talking about banks as insurance brokers, banks as real estate brokers, or insurance companies as bankers, a tremendous number of the respondents are likely, in my judgment, to give a gut reaction but not an informed opinion."

Paul Equale, vice president for government affairs in Washington for the Independent Insurance Agents, agrees but adds that deregulation is out of favor in the United States. He also says the public has a distrust of large banks in particular. "I think the banks have a terribly heavy burden. They have to change their image," he says.

Karen Shaw, executive vice president of the Institute for Strategy Development, a financial industry consulting firm in Washington, also says consumers have not focused on banking deregulation. But Ms. Shaw also detects a basic conservatism in the U.S. that she said would give people some doubts about linking banking and commerce too extensively. "I think it raises a level of fear and concern in average consumers, even if they're not quite sure why."

According to the *American Banker* survey, there is a segment of the population that supports deregulation in general — for both banks and nonbanking firms. There is also a segment that supports maintaining the traditional boundaries between these industries.

The survey found that of those who say nonbanking firms should be permitted to get into the banking business, six out of ten say banks should be able to get into nonbanking activities. And of those who say that nonbanking firms should be blocked from expanding into banking, seven out of ten say banks likewise should be kept out of nonbanking fields.

Among other findings that indicate where some Americans stand on the issue of banking deregulation:

• 56% of the consumers 25 to 39 years old and earning at least $40,000 annually say they support new bank powers. Also, 54% of the people who say they like to do business with just one institution say that banks should be able to offer them more services. Observers say that busy, younger, upwardly mobile Americans are more open to change and more interested in convenience, thus making them receptive to letting banks provide various services.

• Many people who typically are considered more conservative or set in their ways — the elderly and those who live in small towns — say they oppose new bank powers. The results show that 59% of respondents 55 or older and 56% of those who live in rural areas and small towns say they are against granting new powers to banks. People in small towns

may be the most likely to distrust large banks, even if they hold their local banker in high regard.

• 64% of the nonwhites say they support expanded bank powers. One possible explanation is that many in this group consider themselves disadvantaged and may want the opportunity to buy a variety of financial services in a neighborhood bank, where they already have a relationship.

Opinion 'Split All over the Map'

But even within these various segments, there are large enough numbers on both sides of the issue to highlight the finding that the nation is unsure about banking deregulation.

"This means that American opinion is split all over the map and there are no consistent trends that might guide members of Congress," says Ms. Shaw. "The data don't break along traditional indices like Republican-Democrat, urban-rural, that sort of thing."

Financial industry officials on both sides of the deregulation issue also warn that who you ask, and how you phrase the question, can influence the outcome of a poll on an issue as foreign to the average consumer as banking deregulation.

Mr. Equale of the independent insurance agents says there may be a more negative view of expanded banking powers from people who were required to purchase life insurance or some other form of insurance when they recently went to a bank for a commercial loan.

"These consumers are more sensitive to the potential coercive nature of the ability to tie the extension of the credit to the purchase of insurance," he says. "Ask them if they would have liked the bank to sell insurance or not. I doubt they would feel comfortable with that kind of a transaction."

Bankers disagree. They say that the law — both current and proposed — provides adequate protection for consumers when insurance purchases are linked in with loan approvals.

Carter Golembe, chairman of Golembe Associates, a banking research and consulting firm in Washington, says, "Banks are not lovable and cuddly. If you ask if they should expand, people will say no. I'm surprised they got 41% who said yes." But he says that if consumers could be shown the benefits of bank competition, more would say yes.

He also says, for example, that municipal finance officers are the real consumers when it comes to municipal bond underwriting, since they want to raise money for roads or other projects at the lowest cost. He says if they were asked whether banks should be allowed to compete with securities firms for their underwriting business, "they would overwhelmingly favor it."

Acceptance After the Fact

According to Mr. Moran, once consumers have used a service, they are more receptive to it. "Consumer enthusiasm for things that are new and radically different is always after the fact." Mr. Moran says more positive views of bank insurance sales, for example, would come from people in Indiana, who have used banks to buy insurance, under laws that are more broadly permissive there than in many other states.

"In many Indiana counties, the largest insurance agency is a bank. That tells me that people in those counties, where they are used to banks selling insurance, like to buy their insurance from a bank."

It is difficult to determine from the *American Banker* survey how consumers who have used banks for some nontraditional activities view a broad expansion of banking powers. But on the surface, the poll shows no great difference between these consumers and the public at large.

Among the 240 consumers surveyed who say they bought mutual funds, stock, or insurance from a bank, there is still a split in opinions on whether banks should be given new powers. The survey finds that 43% of the people who have used banks for these investment services say banks should be permitted to offer new services such as insurance and real estate sales. Another 46% say banks should not be let into these new areas. The rest say they are not sure.

The survey also shows that bankers cannot necessarily depend on customer loyalty to help them get expanded powers. The people who say they use a commercial bank as their principal financial institution also report opinions on expanded powers that are nearly identical to those of the public at large — 41% in favor of the new powers and 50% opposed.

It is difficult to determine why many bank customers, even those who have used a bank for investment purposes, say they oppose new powers for the industry. Some observers say this may be yet another indication that American consumers are confused about what financial services the law allows banks to provide and the reasons why banks are excluded from other services.

Another thought comes from Frederick S. Hammer, chairman and chief executive officer of Meritor Financial Group in Philadelphia: "The overall viewpoint on the part of everybody is, 'Let's be sure the banks are sound.' Even though they would get greater convenience, it's stability they're looking for. You can't ask everyone to have the sophistication to recognize that true safety only comes out of viability, and viability comes from the ability to compete."

> "Banking deregulation is a complex issue that the public has not grasped in its full implications."

Mr. Hammer points to insurance sales as a low-risk service that banks should be able to offer. "If there was ever a case of vested interests making a dubious argument at the expense of consumer benefit, this is the perfect example," he says.

Mr. Ogilvie of the American Bankers Association says the industry is making progress in getting editorial boards and consumer organizations to back additional competition by banks. "This is a gradual education process," he says, adding that if more consumer groups like the Consumer Federation of America come to favor expanded bank powers, consumers themselves will become involved.

Mr. McEldowney of Consumer Action agrees that bankers can successfully use advertising and other methods to win more public support for new powers. But he stresses, "I think these issues are probably so low on a person's list of priorities that I can't imagine individual consumers writing letters to their elected officials. I don't think it's a cutting issue."□

Jay Rosenstein is an American Banker reporter in Washington, D.C.

EXECUTIVE TIPS Suggestions for how to make *American Banker's* survey data work for you

How to . . . Further the Cause of Deregulation

☐ The public remains unsure about whether banks and nonbanking firms should be allowed onto each other's turf . . .
- so expect the battle to be fought primarily by industry trade groups
- get more involved in trade group activities and fund-raising
- work together with others in your business.

☐ Nonwhites favor allowing banks to offer nonbanking services . . .
- so work with minority groups and community leaders to win their support for expanded powers
- hire some minority employees to teach others about the benefits of allowing banks into the nonbanking business
- facilitate consumers' communication with legislators.

☐ Residents of rural areas and small towns are against allowing banks to offer nonbanking services . . .
- so send them brochures explaining these products
- provide qualified speakers for local community groups
- run free seminars explaining the benefits of bank-offered mutual funds, stocks, and insurance
- make the rounds of the community's social functions and charity drives so the public perceives you as a friend.

☐ Many supporters of the idea of nonbanks in the banking business also support letting banks into nonbanking . . .
- so stress themes such as fair play and two-way deregulation, not just easing of restrictions on banks.

☐ Professionals under 40 years old with annual household earnings of over $40,000 like the idea of letting banks offer new services . . .
- so bolster your deregulatory campaign by aiming it at people from this group who are more into politics than Peugeots
- and get to this market through professional associations for doctors, lawyers, accountants.

☐ People 55 and older are among the most resistant to eliminating the separations between banking and commerce . . .
- so show them how they will benefit personally from deregulation
- and reach them through thoughtful op-ed pieces in local newspapers.

☐ Individuals who prefer to shop for financial services at multiple institutions fear allowing banks into new areas . . .
- so convince them that bank entry will expand the options available to them, not just result in the creation of a few giants.

☐ People are more willing to use banks for mutual funds than any other nonbanking service . . .
- so concentrate lobbying energy on getting Congress to free up mutual fund restrictions, instead of seeking to deregulate the full range of banking powers.

☐ 40% of the public wants banks to offer new services . . .
- so encourage them to let congressional representatives know how they feel, because an active 40% can beat a silent majority
- get the 10% who don't know how they feel to be on your side
- get politically-involved stockholders and board members to help fight your battle.

As Banks Merge, Public Remains Calm

Most consumers are satisfied with the new entity, but there is room for improvement

BY JAY ROSENSTEIN

Even with all the disruptions that can accompany mergers and acquisitions, financial institutions that go through such trauma still appear to be doing a good job of keeping most customers satisfied.

According to the latest nationwide consumer opinion survey from *American Banker*, a quarter of the public say that a bank or thrift they use has been involved recently in a merger or acquisition, up from a fifth who said that last year.

Eight out of ten customers of banks or thrifts that have had a recent merger or acquisition say the resulting institution is either the same kind of place to do business, or better.

Only 13% say it is a worse place. That is about the same as last year, when 14% called the resulting institution worse.

About 63% of those who report that a financial company they use underwent a merger or acquisition say the institution stayed the same after the consolidation. This is up from 53% last year who said they saw no change.

Another 15% say they saw improvement after the merger or acquisition. That is down significantly from last year, when 24% said a recent consolidation resulted in a better place to do business.

Financial industry officials and consultants would prefer to have more than 15% of customers say their banking institution improved after a merger, but they are heartened that only 13% say the experience was a change for the worse.

For the consumer, a merger can mean a host of new factors to contend with, from new procedures and account numbers to new names and faces. This can also mean new doubts, fears, decisions — and headaches.

"Mergers and acquisitions invite people to have negative feelings when they are on the receiving end of the change," says Howard Lax, vice president of Trans Data Corp. Even little details associated with a merger can be viewed as a nuisance, he says.

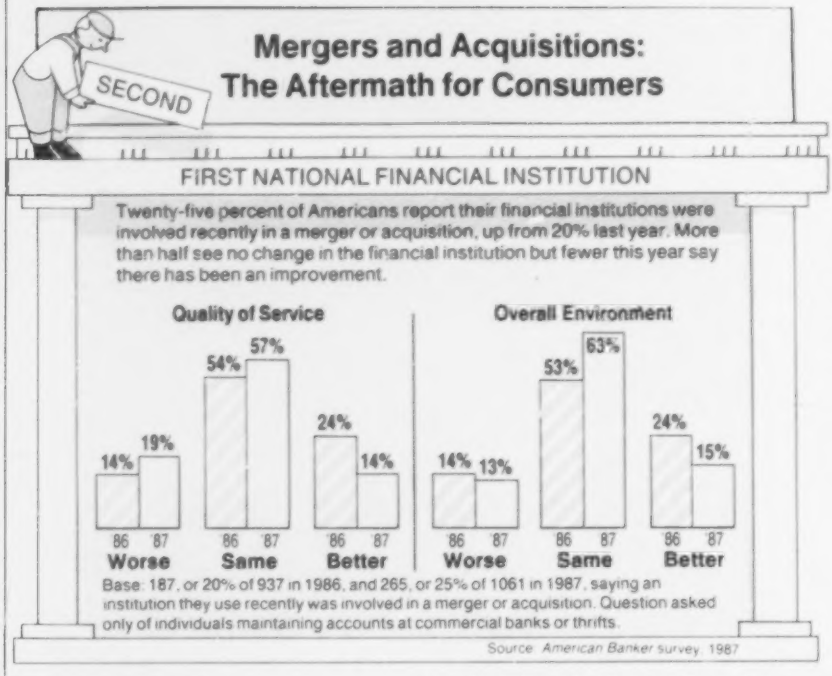
"I think people automatically begin to think of that as a deterioration in service. I think it's somewhat surprising that more people don't complain when their bank gets bought," he says.

He adds that it is a welcome sign after mergers or acquisitions that a large percentage say the institution seems unchanged. "Ambivalence is okay. If you don't come away with people feeling negative, that's success. If people feel positive, that's great. But the important thing is avoiding the negative feelings."

Marjolijn van der Velde, managing director of the retail financial services division for the Bank Administration Institute in Rolling Meadows, Ill., agrees:

"The finding that 63% don't see any significant change, I think says a lot. It means that while customers are aware of the change, the service level and the products being offered are basically staying the same." She says this should help alleviate a customer's anxiety.

"A merged institution eventually is more likely to try innovative products in areas such as discount brokerage and mutual funds."


SECOND
Mergers and Acquisitions:
The Aftermath for Consumers
FIRST NATIONAL FINANCIAL INSTITUTION
Twenty-five percent of Americans report their financial institutions were involved recently in a merger or acquisition, up from 20% last year. More than half see no change in the financial institution but fewer this year say there has been an improvement.
Quality of Service
14% 19%
54% 57%
24% 14%
86 87
Worse
Same
Better
Overall Environment
14% 13%
53% 63%
24% 15%
86 87
Worse
Same
Better
Base: 187, or 20% of 937 in 1986, and 265, or 25% of 1061 in 1987, saying an institution they use recently was involved in a merger or acquisition. Question asked only of individuals maintaining accounts at commercial banks or thrifts.
Source: American Banker survey, 1987

Interstate Banking

Industry observers say that the increase from 1986 in the percentage of the public reporting a recent merger or acquisition reflects the growing number of deals that are taking place, especially as more states permit interstate bank acquisitions.

"Many have involved larger regional banks, and one would expect that the number of customers affected would be greater than when smaller banks within a state have merged," says Richard Stoner, marketing director of the Golembe Associates consultancy in Washington, D.C.

Consumers in the northeastern states are more likely than those in the West to say they have experienced a merger or acquisition. The poll found that 27% of those in the Northeast say they experienced a merger, 26% of Southern-state dwellers, 25% of those in the North Central states, and only 21% of those in West.

Among the major interstate deals unveiled in the months prior to the latest *American Banker* poll were the merger plans of Fleet Financial Group Inc., Providence, R.I., and Norstar Bancorp, Albany, N.Y., as well as Chemical New York Corp.'s acquisition of Texas Commerce Bancshares Inc., Houston.

The increase in bank mergers in the years coinciding with the two most recent *American Banker* polls is confirmed by data from the Federal Deposit Insurance Corp. Agency figures show that from July 1, 1985, through June 30, 1986, there were 344 bank mergers. Add to this another 102 FDIC-assisted mergers of failed institutions, and the total for that one-year period is 446.

From July 1, 1986, through June 30, 1987, there were 439 mergers, plus another 157 FDIC-assisted mergers of problem institutions, bringing the total for the one-year period to 596. That is an increase of 150 mergers, or about 33%, from the previous year.

The net effect of mergers, acquisitions, failures, and new bank charters is that the commercial banking industry continues to shrink. At yearend 1985, there were a total of 14,417 FDIC-insured commercial banks. Preliminary figures put the number of FDIC-insured commercial banks as of June 30, 1987, at 13,968. That is a net decline of 449 commercial banks in just the past 18 months.

Credit Unions Consolidate

Mergers of credit unions are also are occurring with great frequency. According to the Credit Union National Association, a trade group, there were 602 mergers in 1985. The next year, mergers totaled 775.

In the first six months of this year, credit union mergers continued at a comparable pace, with 395 consolidating. And while a total of 18,375 credit unions existed at the end of 1984, that number was down to 16,701 as of June.

During the high-interest-rate environment of the early 1980s, hundreds of savings and loan associations were merging each year. But more recently, according to data from the Federal Home Loan Bank Board, thrifts have shown more modest merger activity. Only about 65 thrifts merged in each of the past three years. That pace continued during the first half of this year, when another 31 merged.

The total numoer of thrifts insured by the Federal Savings and Loan Insurance Corp. at the end of June 1987 was 3,191. That is only a slight change in the 18 months since yearend 1985, when 3,246 FSLIC-insured thrifts were in business. But it is a long way from the 3,779 FSLIC-insured thrifts operating at yearend 1981.

News Is Not All Good

Bankers may savor the "bottom line" finding that eight out of ten customers, both last year and this year, found their institution to be the same or better after a merger. But that does not mean everything is rosy in the latest survey.

- Only 15% of the 265 who say an institution they use consolidated found it to be a better place to do business. That's down from last year, when 24% out of 187 said the overall business environment improved.
- Those who say the quality of service is the same or better after the consolidation total 71% this year. Last year, 78% said the quality of service was the same or better.
- When it comes to service in particular, only 14% say the quality improved after a recent consolidation. That's also down from last year, when 24% said service improved after the change.
- There was a slight increase in the number of customers who say service got worse after the merger, 19% this year versus 14% last year.

It is difficult to say from the survey what the reasons may be for any increase in dissatisfaction, in part because there are too many factors at work in individual mergers. For example, in the case of an institution that had financial woes before being acquired, a customer is likely to accept the change readily and may find that the new institution offers more services.

In the case of healthy and innovative institutions merging, it may be harder for

a customer to detect improvement. Interviews with financial industry officials and observers point to possible problem areas.

Edward E. Furash, president of Furash & Co., a consulting firm in Washington, D.C., says his studies have traced customer opinions before and after mergers. He finds customers to be more critical after a consolidation, even if no changes were made in branch operations, prices, or services.

"One of the reasons," he says, "is that in a merger, banks usually promote the improvement that the consumer should get in terms of benefits from the new institution. This results in raising consumer consciousness and making the consumer more critical of what he does get.

"And what I just said applies to situations in which banks do reasonably well in affecting a merger," he adds. "Think of how bad this gets when a bank does not carry off the merger smoothly — when there are errors in statements, when tellers begin to complain to the customer that things aren't the way they used to be, or when loan decisions become more difficult. Then, customers become highly critical of the merged institution and start thinking about moving elsewhere."

Little Things Count

Mr. Furash says the finding that fewer customers think conditions have improved may indicate that "banking is short of good managers, and in the rapid pace of mergers it's too easy to slide over the little things that make the difference, and thereby inadvertently create customer unhappiness."

Tom Hefter, president of the Financial Institutions Marketing Association, an affiliate of the U.S. League of Savings Institutions, says his studies have shown a recent shift to service quality as the No. 1 customer concern, ahead of traditional concerns such as convenience. He says that in merger situations, when errors are made using new computer systems, for example, customer dissatisfaction can be touched off.

In addition to getting back-room operations to run smoothly, Mr. Hefter recommends that institutions "upgrade and expand the level of communication they have with customers, so the customers feel they are part of it from the very beginning, through the merger and through the problems that are associated with the merger. Be honest with the customers all along and explain to them what's happening. By that, I really mean direct communication — personalized letters, customer newsletters, that sort of communication."

Reasons for Dissatisfaction

If there is growing dissatisfaction, one possible explanation for it is provided by Alan Fox, a legislative representative of the Consumer Federation of America in Washington.

"Very soon after a merger," he says, "the acquiring institution is likely to bend over backward to assure that the merger works, that service quality is fairly good, and that people are satisfied. This is just speculation, but I don't think the bank can or will generally sustain that beyond some period of time."

He says that soon after a honeymoon period, customers may find more changes that directly affect them, such as different account fees or balance requirements. Mr. Fox's group is a coalition of 230 consumer groups nationwide with a total membership of 50 million.

He also urges institutions to be open about what changes are being made. "Every time I see a change in fee structure, it is buried in all sorts of text about how things haven't changed or other things that don't have any relevance."

Others, however, say that consumer acceptance of a merger actually should increase with time.

William Isaac, president of the Secura Group consulting firm in Washington, says that a merged institution eventually is more likely to try innovative products in areas such as discount brokerage and mutual funds.

"You frequently find the combined organizations have a greater ability to implement these kinds of programs as they build their customer base larger and larger. A lot of these programs, to do them efficiently, require a huge mass," says Mr. Isaac.

Thomas P. Rideout, vice chairman of First Union National Bank of North Carolina, says, "It takes time to complete the merger and, once the institutions are merged, it takes time to put in place the operational changes, the product improvements, and the new marketing programs."

Mr. Rideout, who is in line to become president of the American Bankers Association in 1988, adds: "In some cases it may take a year or so to see improvements. In other, more complicated cases, it might take 18 months to three years to see improvements in the service." □

> "For the consumer, a merger can mean a host of new factors to contend with, from new procedures and account numbers to new names and faces."

EXECUTIVE TIPS Suggestions for how to make *American Banker's* survey data work for you

How to . . . Handle Mergers & Acquisitions

☐ Fewer people this year than last are satisfied with the quality of service at financial institutions that have recently been involved in mergers or acquisitions . . .

- so when you initiate a merger, immediately ask customers what they want through focus groups and surveys as a way to get new ideas and support
- talk to customers through letters, newsletters, and other forms of communication about everything that is going on
- be up-front about changes when they do occur, especially those that affect the pocketbook, such as account terms or fees; but try to follow the routine of the original institution for a while
- do not introduce too many new services immediately; give the consumer a chance to trust you for routine services first
- be aware that quality of service may be suffering along with employee morale
- take a good look at centralization policies that could be disturbing the frontline effort
- don't make promises about the new institution that you can't keep
- don't destroy the merged institution's culture or identity without realizing that you are also destroying the customers' sense of consistency
- make sure that credit decisions and other transactions occur expediently, or you risk the impression that the merger means more bureaucracy
- explain in advance what is involved in pulling off a merger. so that if delays or errors occur, the customer will be prepared
- if cost-cutting measures are instituted, explain how the customer will benefit
- have customer service representatives in the lobby or at the phone to help out.

Few Consumers Find Their Branches Closed

But debate is still alive over whether nonwhites or the poor are affected most

BY JAY ROSENSTEIN

Despite consumer concerns about large-scale branch closings caused by mergers or cost cutting, only 4% of the American public say that a branch they used closed during the past year.

That number is fairly constant for all ages and income ranges, from one region of the country to another, and among communities of all sizes.

Financial industry officials stress that branches are closed for a wide variety of reasons, some having to do with mergers, some not. Industry officials also say that while branches are being closed in low-income areas for reasons that include profitability, the number of closings is not disproportionately high.

Joe Belew, president of the Consumer Bankers Association, a retail-oriented industry group based in the Washington, D.C., area, says that while a branch closing may add inconvenience, banking services still are available at other branches or through programs like direct deposit of government checks.

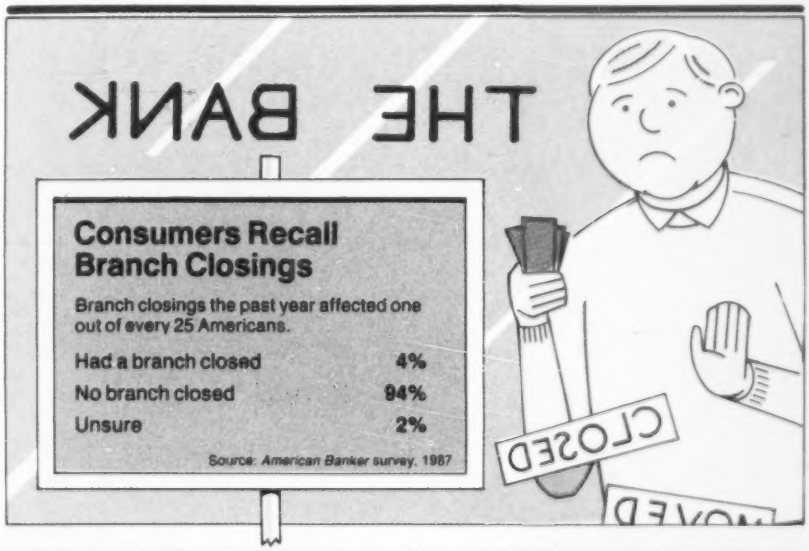
"Obviously, many people prefer to do banking in person," he says. "But the facts are that technology and bank marketing practices are improving the level of service that you can get without visiting a lobby," Mr. Belew says.

Industry officials also point out that for every branch that closes across the nation, many more open or become part of another bank's branch network. Federal Deposit Insurance Corp. data show that from June 1986 through June 1987, FDIC-insured commercial banks and savings banks opened 1,852 branches. Another 2,579 branches were obtained by merger or acquisition. Branch closings, however, totaled only 778 during during the one-year period.

Mergers tend to produce consolidations. When Wells Fargo Bank, San Francisco, acquired Crocker National Bank in May 1986, the two institutions had a total of 621 branches. Now, there are 448, including the sale of eight branches to other institutions.

Consumer groups say that depository institutions have been pulling branches out of low-income and minority areas. They say this raises concerns about equal access to deposit and credit services. Consumer representatives also counter statistics showing vast numbers of branch openings by stating that these typically occur in suburbs or affluent neighborhoods, not in low-income areas.

A report released earlier this year by a consumer group in New York says that bank branch closings in New York City between 1977 and 1984 "deprived hundreds of thousands of people of convenient access to basic banking services such as checking and savings accounts, safe deposit boxes, and even automated teller machines." The group urged state and federal regula-


THE BANK
Consumers Recall Branch Closings
Branch closings the past year affected one out of every 25 Americans.
Had a branch closed 4%
No branch closed 94%
Unsure 2%
Source: American Banker survey, 1987
CLOSED

"Consumerists say branch openings typically occur in suburbs or affluent neighborhoods, not in low-income areas."

tors to provide more oversight of branch banking issues.

In the *American Banker* survey, 9% of the 149 blacks, Hispanics, Orientals, and other nonwhite respondents report that a branch they used closed. That compares with 4% of the 976 white consumers polled. Five individuals surveyed refused to state their racial origin.

If there is widespread racial discrimination involved in the closing of branches, it is difficult to tell from the *American Banker* survey findings. One reason is that, based on a small sample of 149 nonwhites, chances are that the actual percentage of nonwhites experiencing a branch closing could be as high as 13.5% or as low as 4.5%, according to the researchers.

"While the data is not conclusive, it points to the possibility that nonwhites are subject to branch closings at a higher rate than the white population," says Howard Lax, vice president of Trans Data Corp. "But it is anything but conclusive."

Some business people see a positive side to branch closings. John Kelly, president of the National Bankers Association, which has a membership of 54 institutions that are owned and/or operated by minorities or women, says, "There are some real business opportunities made available, and some of the minority banks are taking advantage of that."

One such institution is Banco de Ponce, a $2 billion-deposit bank in New York that in the past two and a half years has purchased four branches left by others. Joseph Wiscovitch, vice president of marketing, says that banks are not discriminating against nonwhites or the poor, they are just maintaining their own standards of profitability.

"You can't blame them for that," he says. "But where they feel they can no longer be successful, we feel we can be successful. We've been working in black or Hispanic or white economically deprived neighborhoods for 40 years.

"Our pricing, our balances, are targeted to those neighborhoods. We opened Saturdays 20 years ago in order to meet the needs of the community, people who don't have a luxurious two-hour lunch and don't have the time to stand in line. Now everybody opens up Saturdays." □

EXECUTIVE TIPS Suggestions for how to make *American Banker's* survey data work for you

How to . . . Handle Branch Closings

□ Twice as many nonwhite consumers as whites say they have experienced a branch closing . . .
- so be careful how and why you close branches
- be prepared for challenges from community activists under the Community Reinvestment Act
- counter negative publicity by talking and listening to community leaders and members of local minority groups far in advance of the branch closing
- increase automated teller locations in areas where branches are closed
- figure out ways to continue making loans to customers from that branch
- do whatever is possible to sell the branch to another institution before shutting it down
- help local residents establish community credit unions.

□ People who define something other than a bank, thrift, or credit union as their principal financial institution are more likely to say they have experienced a branch closing recently . . .
- so watch out that closing branches doesn't push some people out of the system.

□ People who are not satisfied, who have the Discover card, or who would switch to a Sears bank in Sears stores are among those most likely to have experienced branch closings . . .
- so strive to offset the lure of the competition when closing branches.

Consumer Preferences

Most Americans vote against one-stop shopping for financial services ♦ The affluent do not want mutual funds, stock, and insurance from banks ♦ Credit union members are the nation's most satisfied consumers of financial services ♦ A majority of Americans say service is good at their financial institutions ♦ Ten percent of the public recently quit doing business with their main financial company ♦ People who switch financial institutions aren't necessarily any happier.

Middle Market Lines Up for One-Stop Shopping

Affluent customers shop around for specialists and good deals, and diversify to minimize risks

BY LAURA GROSS

Most of the people attracted to the idea of one-stop shopping for financial services are not the affluent many banks have been trying to lure with this strategy, the latest consumer survey from *American Banker* shows.

Just over a third of the public say they like the idea of doing all of their financial services business — including checking, savings, loans, investments, and insurance — with one financial company.

Among the 37% of respondents who prefer a one-stop approach there are nearly twice as many less educated and low-income people as there are well-educated individuals and high earners. Among the 59% who prefer to shop among a variety of providers the situation is reversed. Two percent of the public have no preference and 2% are unsure.

Also, it is lower-income, less educated, and younger people who say they would choose banks over traditional suppliers as purveyors of mutual funds, stocks, and insurance.

Of the total public, 34% say they would prefer to buy mutual funds from a bank, 23% would prefer to buy stock that way, and 7%, insurance.

The data indicate that, for most banking companies, strategies which concentrate on serving affluent consumers at the expense of other market segments are at best shortsighted and at worst financially unstable.

"The more assets or cash flow you have, the more opportunity you have, and opportunity outweighs convenience, so you wouldn't be concerned with one-stop shopping," explains Alexander W. "Pete" Hart, executive vice president, First Interstate Bancorp, Los Angeles.

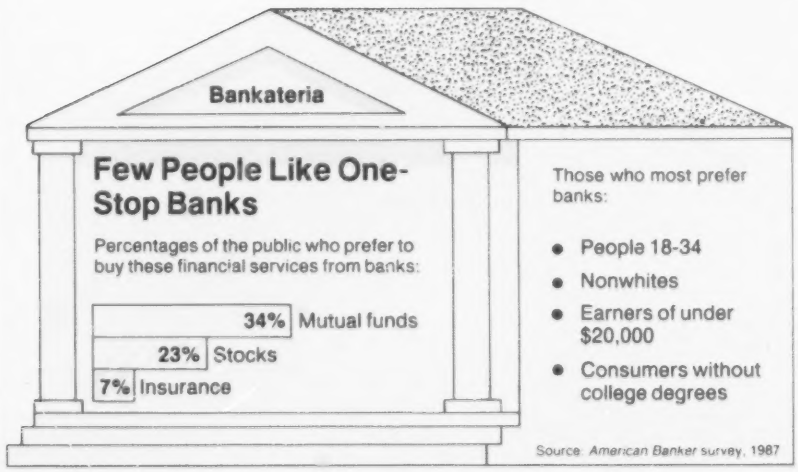
His perspective is supported by more data from the *American Banker* survey showing that a majority of those who like one-stop shopping say convenience is the principal reason for their choice. Second, they mention more efficiency and fewer risks, showing that safety is a critical issue.

"These people lead fragile economic lives. They are not sophisticated and they'll go for anything that makes life easy for them, particularly in areas where they feel vulnerable," comments Fabian Linden, director of the Conference Board's consumer research center.

For the others, who choose to do their financial services business with multiple providers, the idea that specialists are best ranks at the top, chosen by about a third. Running a close second is the fear of having "all my eggs in one basket," and after that is the desire to "shop around for better rates and fees," mentioned by about a quarter.

"That doesn't mean that the concept of cross-sell is wrong or the concept of having multiple relationships at one institution is wrong. What is flawed is the concept that people prefer to have all of their financial relationships in one place," explains Edward Furash, president of Furash & Co., a Washington, D.C., management consulting firm.

"There's this whole 'I want to be smart' thing going on today. Today's



The Plus System® Network Continues To Chart A Steady Course For International Growth.

Peter Rahmer
Toronto Dominion Bank

More and more leading financial institutions throughout North America are discovering the advantages of membership in the PLUS SYSTEM network of internationally shared Automated Teller Machines (ATMs). Toronto Dominion Bank, one of Canada's largest and most prestigious financial institutions with over 950 branches and 630 ATMs, is one of the newest PLUS SYSTEM members. Mr. Peter Rahmer, the Visa general manager of Toronto Dominion, comments on his bank's decision to join the PLUS SYSTEM network.

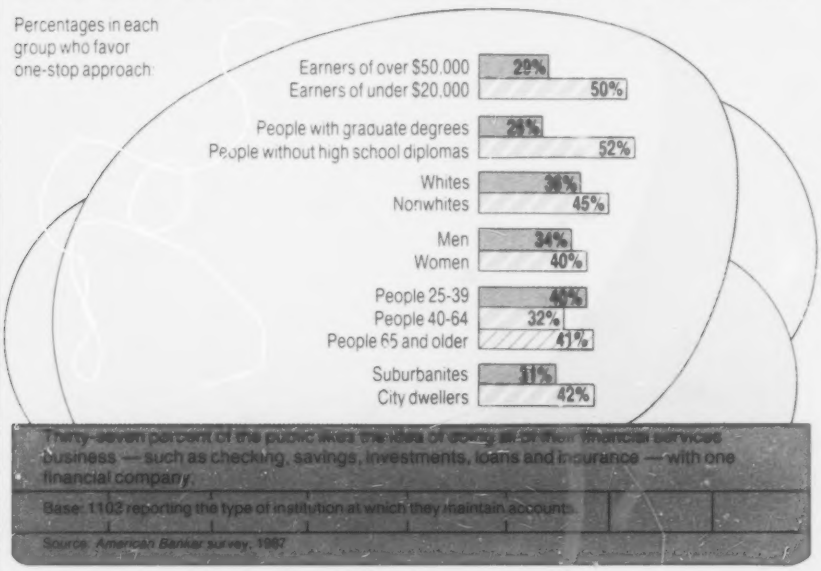
"We are committed to products that provide service, convenience and value to our customers," stated Mr. Rahmer. "The PLUS SYSTEM affiliation certainly meets this objective by giving our customers significantly expanded access to cash through PLUS SYSTEM ATMs located across North America and beyond. Geographical convenience, proven reliability, and organizational strength arising from the alliance of Visa and Plus System, Inc., all make a compelling case for membership."

Isn't it time your financial institution joined the leading ATM network as a PLUS SYSTEM member? For complete details on all the options available, call Ron Reed at Plus System, Inc., (303) 620-7318.

Plus System

THE LEADING ATM NETWORK

A Third of Public Likes All Financial Eggs in One Basket



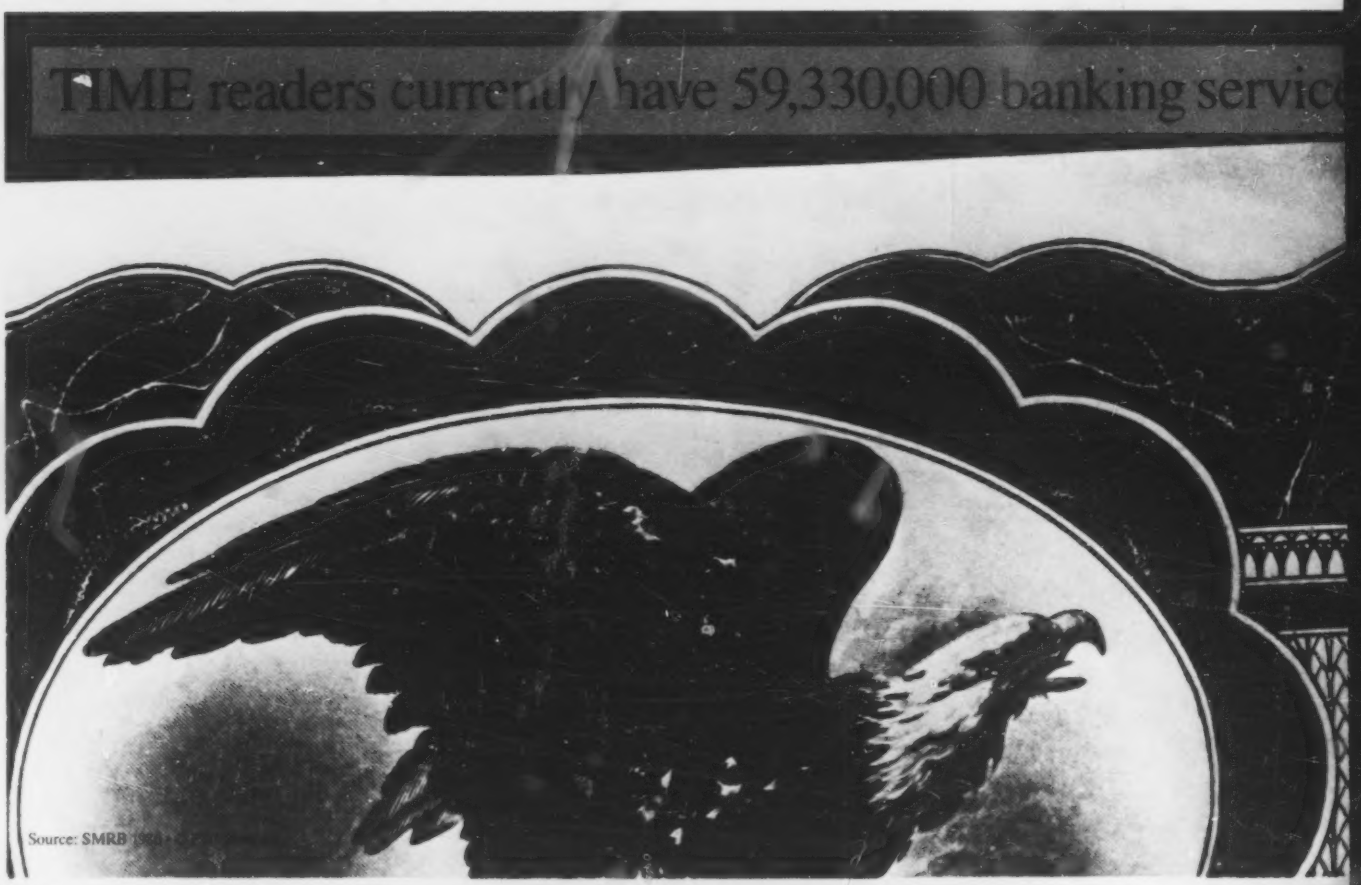
consumers feel that to be smart shoppers they should exert more control over their money and diversify among different institutions," Mr. Furash says.

"The more affluent people are, the more likely they are to shop the competition. The only thing that will get them to choose your bank as their lead supplier is expertise — and that is something banks are unwilling to pay to acquire," maintains Marilyn Barnewall, marketing consultant and president of the MacGruder Agency in Aurora, Colo.

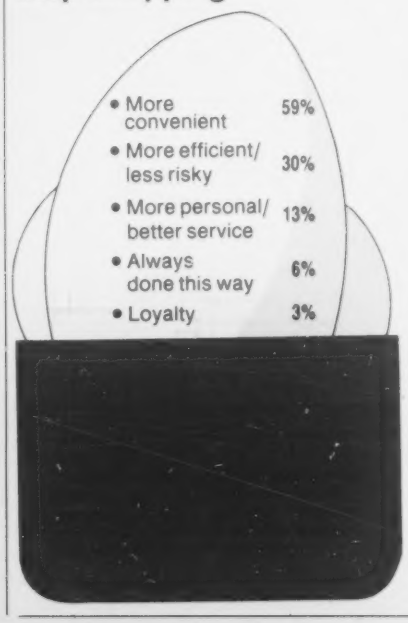
Affluent Look for Value

In addition to their habit of spreading the wealth, the affluent are a difficult market to capture because they "are more inclined to haggle over rates and prices and cut a good deal," says Leonard L. Berry, PhD, a professor of marketing at Texas A&M University.

But, Mr. Berry says, that is only one reason why "chasing the affluent is an unwise policy for most retail banks. The



Why 37% Like One-Stop Shopping



other is that everyone else is doing it, which makes for one hell of a lot of competition."

That comment underscores the extent to which many bankers have gone off "lemming-like in pursuit of the affluent segment," as one highly placed officer of a large New York banking company puts it.

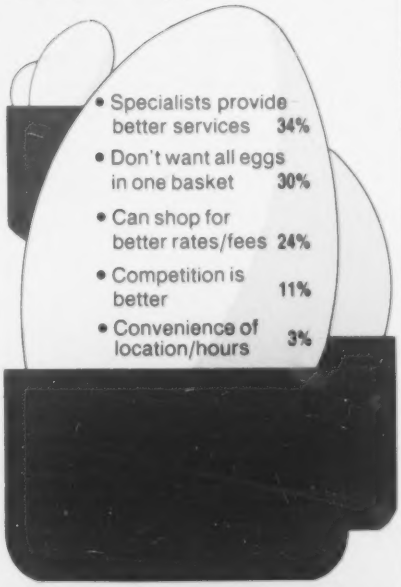
These bankers were following the suggestions of "a lot of consultants who made a lot of money as pied pipers of the 80-20 rule," adds this banker, who requested that his name be withheld. The 80-20 rule says that 80% of a bank's revenues come from 20% of its customers.

That rule was broadly interpreted to mean that consumers with large balances were the bank's most profitable customers. It caused an emphasis on serving savers at the expense of people who were often a bank's best loan prospects.

"That was its one pitfall," says Jack W. Whittle, chairman of Whittle & Hanks, a Chicago marketing consulting firm, and a leading advocate of the 80-20 rule.

"In small towns where we have a limited market, we may have priced a significant portion of our best potential loan

Why 59% Like Multiple Suppliers


• Specialists provide better services 34%
• Don't want all eggs in one basket 30%
• Can shop for better rates/fees 24%
• Competition is better 11%
• Convenience of location/hours 3%

customers out of the bank because we thought there was never a tomorrow and we had all the loans we could get at the time," Mr. Whittle says.

Relationship Banking

In an effort to right the ensuing imbalance, Mr. Whittle emphasizes relationship banking, or relationship pricing. This offshoot of one-stop shopping uses the strategy of incentives and discounts to encourage consumers to consolidate their saving, checking, borrowing, and other financial business with a single supplier.

Relationship banking attracts "a middle-market segment that likes a package of services for a fixed price. That's the group that really says they want one-stop banking," explains John A. Russell, vice president of marketing for Banc One Corp., Columbus, Ohio, and president of the Bank Marketing Association.

It is the middle market — consumers with household earnings of $20,000 to$50,000 — that has always been commercial banking's core customer base. According to the *American Banker* consumer survey, the majority of individuals who say they have already purchased mutual funds, stock, and insurance from banks come from the middle market.

The 54-year-old Glass-Steagall Act separating banking and commerce also prohibits banks from offering their own mutual funds, except commingled agency accounts, to trust customers. U.S. law also prohibits banks from owning insurance agencies except for 16 bank holding companies and banks in towns with populations of less than 5,000. Although Glass-Steagall also prohibits banks from offering investment advice, many have gotten as close as they can to full-service stock brokerage by offering discount services.

VOICE OF THE CONSUMER

> "THEY'LL GET TO BE LIKE THE PHONE COMPANY. THEY CAN'T DO IT ALL AND DO IT RIGHT."
>
> *— Older middle-income woman from a small New Jersey town*

Despite these restrictions, almost 9% of the public say they have already bought mutual funds from a bank, 7% say they have bought stock, and 11% say they have bought insurance.

Nearly five out of ten of these individuals live in households where the earnings are between $20,000 and $40,000 annually, a typically middle-market profile. Another two out of ten live in households with earnings under $20,000.

Also, two-thirds of them are under 55, with a majority of those 25 to 39. This finding debunks another popular myth — that people 55 or older are the chief market bankers should target for these new services.

Industry observers see no inconsistency in the *American Banker* survey finding that lower-income and less educated people express the greatest preference for buying these services from banks, while middle-income consumers are the ones who already go to banks for mutual funds, stocks, and insurance.

"The survey shows that the kinds of people who have always relied heavily on banks are interested in doing more business with them," says Irving F. Leveson, senior vice president and director of research for the Hudson Strategy Group, New York, a subsidiary of the Marsh & McLennan Cos.

The survey defines low-income people as those with household earnings of less than $20,000. Less educated people are those who never went to college and may not have finished high school.

Aiming for the Middle

The idea that one-stop shopping has great appeal for some segments of the market is no secret to Anthony M. Frank, chairman of First Nationwide Bank, San Francisco.

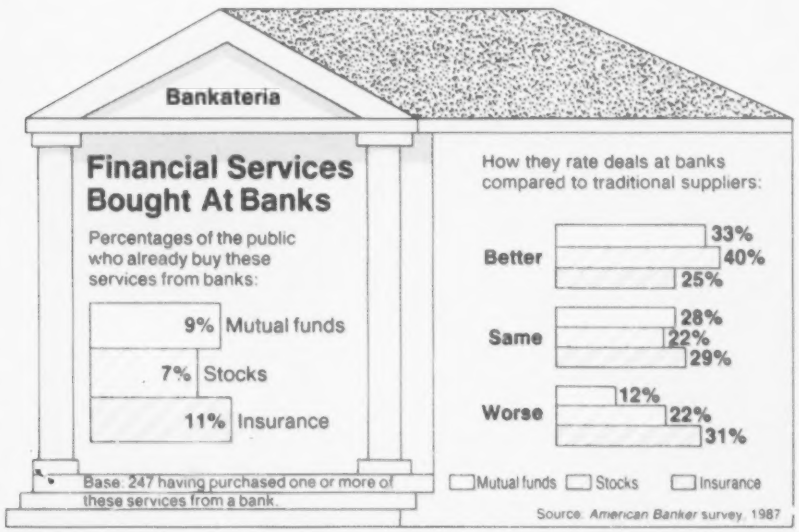
"For a while, I felt like a lonely voice on the subject of one-stop shopping," he says, recalling that "people used to point at us and tee-hee behind their hands, so to speak." First Nationwide is a federal savings bank that, for some time, has been offering insurance and mutual funds through its branches and one-stop banking through K mart stores.

"The affluent have never been our market," Mr. Frank says. "We deliberately eschewed that market. Our strategy is to be a national consumer bank for the middle market."

He says he is most encouraged by the *American Banker* survey finding that 37% of the public favors one-stop shopping: "From an institution's point of view," Mr. Frank says, "if 37% of the market wants something, that's a pretty good market."

Because banks appeal to a broad spectrum of consumers, simply allowing them to offer new services, such as their own mutual funds, "would bring more people into the market who don't now deal with mutual fund companies," says Mark W. Olson, president of the American Bankers Association and of Security State Bank of Fergus Falls, Minn.

Along with other bankers, Mr. Olson sees hope for the future in the survey finding that one-stop shopping has



VOICE OF THE CONSUMER

"I'LL SWITCH BANKS FOR A QUARTER OF A PERCENT. I'M NOT OBLIGATED TO BANK WITH ANY ONE COMPANY THAT DOESN'T DO ANYTHING FOR ME."

— Middle-income retiree from a Pennsylvania city

slightly more appeal to people 25 to 39 than to the current mainstream market of people 40 to 64.

"That means that 20 years from now, if financial institutions provide real value, you'll be seeing these people have deeper relationships," says a New York banker.

But the survey indicates that banks may not fare as well as some expect if they are permitted to offer new services. So far, they get mixed reviews from consumers about the deals they offer on mutual funds, stock, and insurance.

A third of the 101 people who bought mutual funds from a bank say they got a better deal than they would have from a traditional supplier, while 12% think it was worse. Of the 83 people who bought stock, 40% say they got a better deal and 22% say worse; and of the 119 people who bought insurance, 25% say better deal and 31% say worse.

"The survey shows that banks have a real selling and marketing job ahead of them" to get consumers to accept these new products, notes William O. Adcock, chairman of Synergistics Research Corp. in Atlanta.

According to Mr. Olson, "If we had the ability to bring these services to the marketplace, we'd do so in a manner we'd know ahead of time would be attractive to customers, or we wouldn't do it."

He and other industry leaders think it is possible that increased marketing muscle could reverse the attitudes of people who say they get a worse deal at banks, and might even bring in affluent people who now avoid using banks for sophisticated services.

"If the moratorium on expansion of banking products and services were lifted and banks then had freedom to move in that marketplace, I think over a period of years you'd see those percentages changing," says C.C. Hope, director of the Federal Deposit Insurance Corp.

The reason, he suggests, is that banks "would then make a financial commitment to develop these programs with more astuteness."

"You need to give people multiple good reasons to get them to consolidate much or all of their business with you," says Mr. Berry. "And when you give them multiple good reasons, many will do that, including some who answered that they wouldn't in the *American Banker* survey." □

EXECUTIVE TIPS Suggestions for how to make *American Banker's* survey data work for you

How to . . . Foster One-Stop Financial Shopping

□ People earning under $20,000 a year without college educations favor one-stop shopping for financial services . . .
- so design a menu of services you can profitably offer them
- rethink the outmoded concept of the branch as a distribution system primarily for the affluent
- promote new services for the under-$20,000 group on automated teller machines.

□ People who have bought insurance from banks think they get a worse deal at the bank than at an insurance company . . .
- so figure out what's turning them off and change it
- and run focus groups to reverse opinions of these early product adopters.

□ Only 7% of the public have bought stock from a bank, at a time when discount brokerage ought to be a booming business . . .
- so put some more marketing muscle behind your discounting operation
- find something unique to offer people other than low price
- offer it as part of a package including other valuable services
- make it easy for people to buy.

Consumers Are Content with Quality of Service

Few are unhappy with pricing now, but dissatisfaction could grow

BY LAURA GROSS

Most Americans think their financial institutions give good service.

Two out of ten Americans say the service quality at their most important or principal financial institution is great, and seven out of ten call it good. Slightly fewer than one in ten people judge the service to be poor or frustrating.

Among patrons of the three main types of depository institution, credit union members give their institutions better marks for service than banks and thrifts get from their customers.

Continuing a trend found in *American Banker*'s 1986 survey, service ranks first among factors people mention when they discuss what pleases them most about their financial institution. Convenience of location ranks a distant second, and range of products and services is third.

The quality of service also ranks first when people discuss what they like least about their main financial institution. Following that, they mention inconvenient locations or hours, and third, interest rates.

Satisfaction with the nation's main providers of depository and loan services remains high, with more people having something to say about what they like than airing complaints. When asked in open-ended questions what they like most, only 14% of the public have no response. Asked what they like least, 52% have no complaints.

Nineteen percent of consumers say they are more satisfied with their main financial company today than they have been in the past; an equal number say they are less satisfied. But, among thrift customers, for the first time in the four years since the newspaper began polling consumers, there has been noticeable growth in those who are less satisfied than in the past.

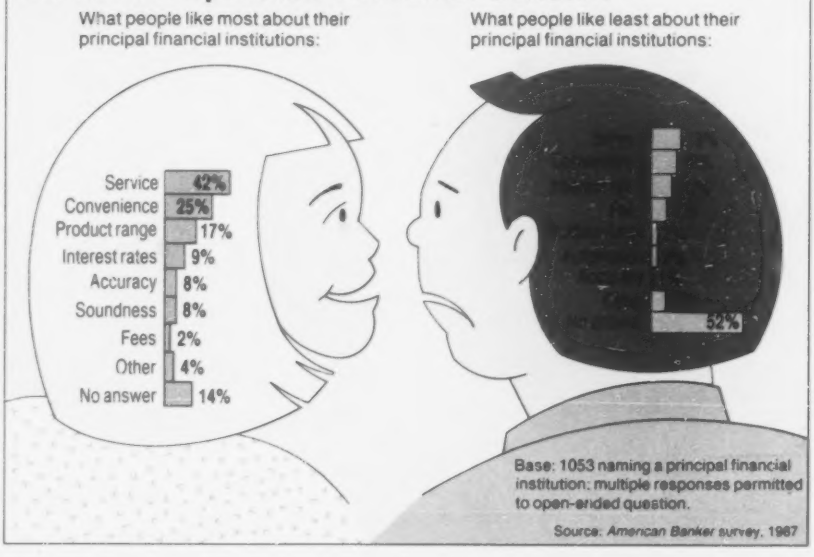
A majority of consumers report that they are very satisfied with their main financial company, with 60% giving this response. An additional 35% say they are somewhat satisfied, and only 5% say they are not satisfied.

The survey findings support the idea that service quality is a major contributor to satisfaction in the financial services industry.

This is most obvious in cross-tabulated data showing that the more satisfied people are with their principal financial institution, the less likely they are to call the service poor or frustrating: 56% of the people who are dissatisfied with their main financial company call the service quality poor or frustrating, compared with 9% of those who are somewhat satisfied and only 1% of those who are very satisfied.

Industry leaders say that the ranking of service quality over convenience represents a significant change from past consumer attitudes.

Service Is Top-Rated Consumer Concern


What people like most about their principal financial institutions:
Service 42%
Convenience 25%
Product range 17%
Interest rates 9%
Accuracy 8%
Soundness 8%
Fees 2%
Other 4%
No answer 14%
What people like least about their principal financial institutions:
52%
Base: 1053 naming a principal financial institution; multiple responses permitted to open-ended question.
Source: American Banker survey, 1987

"There has been a shift in consumer attitudes about what are the most important criteria in choosing a financial institution. It used to be convenience, convenience, convenience. And research we have shows that is no longer true," says Tom Hefter, president of the Financial Institutions Marketing Society of America and senior vice president of marketing for the U.S. League of Savings Institutions.

According to the league's research, six of the top ten attributes people mention when describing why they choose one bank or savings institution over another are related to service quality. Two of the other four deal with institutional stability, and the others are progressiveness and competitive interest rates on deposits. Convenience was not even mentioned in the top 10 in their 1987 study.

"The worst scenario for bankers is if they say rate, convenience, and service — in that order," says Jack W. Whittle, chairman of Whittle & Hanks, a Chicago marketing consultancy.

VOICE OF THE CONSUMER

"THEY MADE UP THESE LITTLE PLASTIC CARDS, AND I CAN'T BELIEVE I USED TO LIVE WITHOUT IT."

— Young naval officer from Connecticut

"It's easier to give service than rate. Convenience is a little more expensive, but the most expensive and hardest to battle is rate on deposits or loans," Mr. Whittle explains.

"With financial services having become commodities, most financial institutions have been trying to avoid price competition by stressing service quality," says Edward Furash, president of Furash & Co., a management consulting firm in Washington, D.C.

"What this survey shows is, you have to give the consumer more than mere lip service about quality if you're going to be perceived as being different," Mr. Furash adds.

He says this is because "the general level of satisfaction is relatively high, which means that to make a quality-service strategy work you have to introduce something very special, such as the closeness and sense of belonging that people find in credit unions."

Otherwise, he says, people will tend to shop selectively at different financial institutions, and price will become a more important consideration in each purchase decision.

Attitudes Toward Fees

The amount of price sensitivity in the marketplace is the subject of constant debate. Mr. Whittle says that, historically, 12% of the public has shifted business when rates move significantly.

Consumer attitudes about service fees are rarely monitored, but consumer groups have been complaining for years about high fees at banks.

The idea that consumers react to service fees is confirmed by Mark Olson, president of the American Bankers Association, and of Security State Bank of Fergus Falls, Minn. He admits that there was a predictably negative consumer reaction when banks began pricing services according to their costs and not simply offering them free. But he thinks that, for banks, this reaction is largely history.

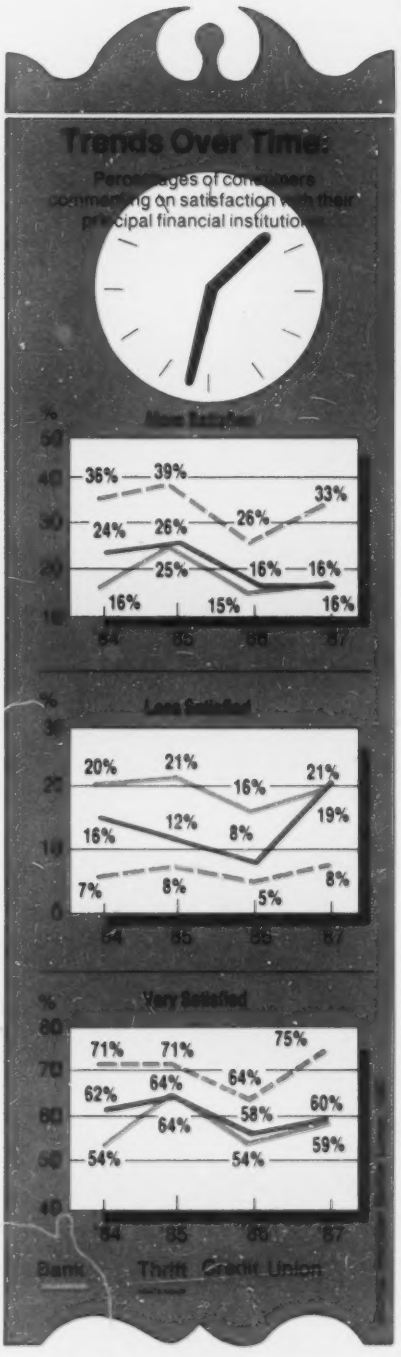
On the other hand, for thrifts, the reaction may just be starting. According to Mr. Hefter of the U.S. League of Savings Institutions, more consumers say they are less satisfied with their thrift institutions this year than said that last year in the *American Banker* survey, mainly because thrifts have imposed service fees.

Among people who choose a thrift institution as their main financial services provider, 21% of those surveyed this year say they are less satisfied with their thrift, compared with 9% in 1986. Sixteen per cent report they are more satisfied today.

Other industry leaders say the falloff in satisfaction with thrifts is due to the high level of publicity about problems in the industry, especially the insolvency of the Federal Savings and Loan Insurance Corp., which was in the news when the survey was conducted in May and June.

"If you now were to pursue the question with the positive publicity that has been given FSLIC since the President signed the bill Aug. 10, I'm sure satisfaction would have moved back again to where it has been historically," says M. Danny Wall, chairman of the Federal Home Loan Bank Board.

It is impossible to tell with certainty from the *American Banker* survey which of the many components of satisfaction — service, price, stability, or convenience — is most responsible for the decline in satisfaction with thrifts.



But, among the 19% of consumers who are less satisfied today with their main financial company, a combination of price considerations — including fees and rates — ranks first, ahead of service and stability.

Poor employee attitude or bad service

VOICE OF THE CONSUMER

"THEY'RE ALWAYS CHANGING THE RULES AND UPPING THE MINIMUM BALANCES."

— Young upper-middle-income accountant from suburban Colorado

Credit Unions Continue to Deliver For Their Members

According to the *American Banker* consumer opinion survey, for the fourth year in a row credit union members are the nation's most satisfied consumers of financial services. Compared with customers of banks and thrifts, twice as many credit union members say they are more satisfied today with their main financial institution than they have been in the past.

Also, credit unions broke their 1984 record this year, with 75% of their members saying they are very satisfied, compared with 59% of bank customers and 60% of thrift customers. In 1984, 71% of credit union members said very satisfied, compared with 54% of bank customers and 62% of thrift customers.

Consumers who say their main financial institution is a credit union are much more likely than bank or thrift customers to report that the service is great: 30% of credit union members say service is great, compared with 16% of thrift and 19% of bank customers.

"People who work for credit unions think they work for a cause, not a financial institution, so they try harder," says Jack W. Whittle, chairman of Whittle & Hanks, a Chicago marketing consultancy.

For the first time in four years, however, there has been a decline in the ratio of credit union members saying they are more satisfied compared with those saying less satisfied, from 5-to-1 through 1986 to 4-to-1 this year.

While the decline is so slight that it could be the result of sampling error, credit union leaders acknowledge that a change in satisfaction with credit unions may have occurred due to the imposition of service fees over the past few years.

"If the ratio went up, it is because credit unions are now involved with fees," says Mike Welch, president of the Credit Union Executives Society.

"Credit unions are in the same squeeze as other financial institutions, and fees are increasing as the cost of doing business increases," Mr. Welch says.

Keeping Prices Down

Although credit unions are committed to charging customers for services, Mr. Welch says most are making every effort to keep their prices below those of banks. He says the effort is important because many customers are less satisfied with banks and savings institutions since they have imposed fees and minimum balance requirements.

The consequences of this diminished satisfaction do not show up in this year's *American Banker* survey, but other pollsters say they have evidence of the impact bank service charges have had in the marketplace.

"Banks are losing an enormous amount of business to credit unions," says Justin L. Moran, president of his own management consulting firm in Ann Arbor, Mich.

Mr. Moran's perspective comes from results of a survey of 1,200 Michigan credit union members conducted by Lincorp Research Inc., Southfield, for the Michigan Bankers Association. Mr. Moran is the group's spokesman.

In that survey, Mr. Moran reports, 31% have abandoned banks for price-related reasons — either high service charges or minimum-balance requirements. That includes 8% who never used a commercial bank and 23% who once did but now have switched to a credit union as their main financial institution.

The demographic profile of the typical middle-market credit union member, he adds, might shock some bankers "who think they are all Joe-shot-in-a-beer."

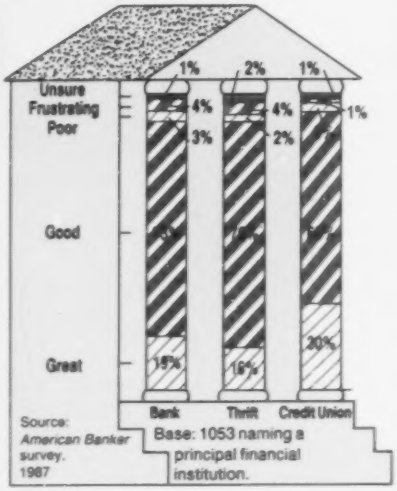
Half of them have incomes greater than $33,500, Mr. Moran says, and they are better educated than the average Michigan bank customer.

Mr. Moran says the Michigan survey finding shows that "the price elasticity for banking services is gone, evaporated, yesterday — it's history."

In that survey, it is people 35 to 54 who most mention high service charges as a reason for choosing credit unions over banks. Individuals earning $35,000 to $50,000 a year mention minimum balance requirements most, while those earning $20,000 to $35,000 mention high service charges, Mr. Moran says.

— L.G.

How People View Service Quality



is mentioned by 30% of those saying they are less satisfied today, while low deposit rates are mentioned by 19%, too many service charges or fees by 16%, and high loan rates by 10%. That means 45% of the responses are related to price. Only 10% of those who are less satisfied mention fears about stability.

For the 53 less satisfied consumers saying a thrift is their most important financial institution, low deposit rates are the top reason, compared with poor attitude or service for the 107 who prefer banks. There are too few consumers in these subgroups to draw national conclusions from responses to this question alone.

Looking at less satisfied consumers by age, although the subgroups again are small, it appears that poor service, high fees, and low deposit rates — in that order — are are what most displease people 25 to 39 years old.

Low deposit rates, poor service, and fears about institutional stability — in that order — most displease people 65 and older.

Older people tend to give high ratings to the quality of service more than younger people, with 23% of those 55 and older calling it great, compared with 15% of those under 39. The number of people 65 and older who say they are less satisfied today with their main financial institution is twice as great as the number who say they are more satisfied. The survey found a similar trend, although to a lesser degree, in the 55-to-64 age group.

Rates Pose Special Problem

If it is low interest rates on deposits that are dissatisfying the older generation, there is very little any financial institution can do. The survey indicates that throwing good service at them and depriving the younger generation of more attention will not solve the problem, and could cause dissatisfaction over poor service to grow as service-sensitive young adults get older.

Although the overall level of satisfaction is high today, there may be some hidden dissatisfaction in the survey statistics. For example, the "somewhat satisfied" category is a mixed bag, with a third of the people in it saying they are less satisfied today than in the past. That compares with a fifth of the somewhat-satisfied people last year who said they were less satisfied.

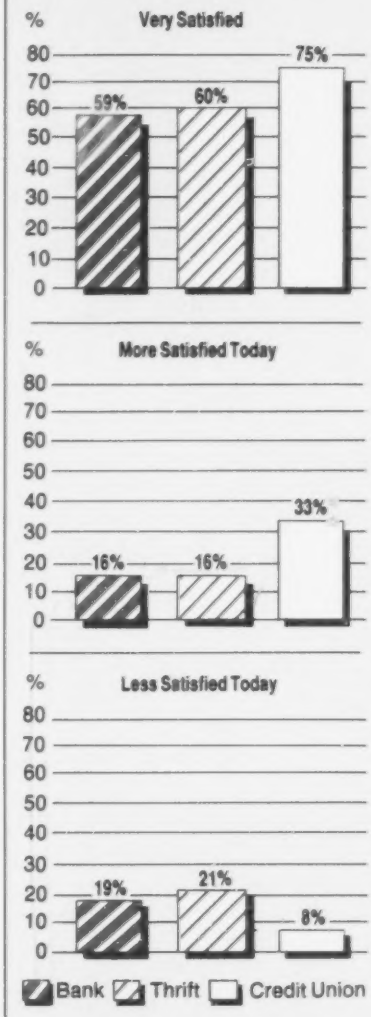
It is possible that this dormant dissatisfaction may surface first at commercial banks. In the past few years, commercial banks have spent millions gearing special service to the affluent consumer, yet bank customers with household earnings above $50,000 are less inclined than the general public to say they are very satisfied.

Moreover, they are twice as likely to say they are less satisfied today as more satisfied, and they are less inclined than the general public to characterize the service at commercial banks as great.

What Do the Affluent Want?

It could be, industry observers say, that affluent customers have a different

How Consumers Rate Their Principal Banking Institutions



Base: 1053 naming a principal financial institution.

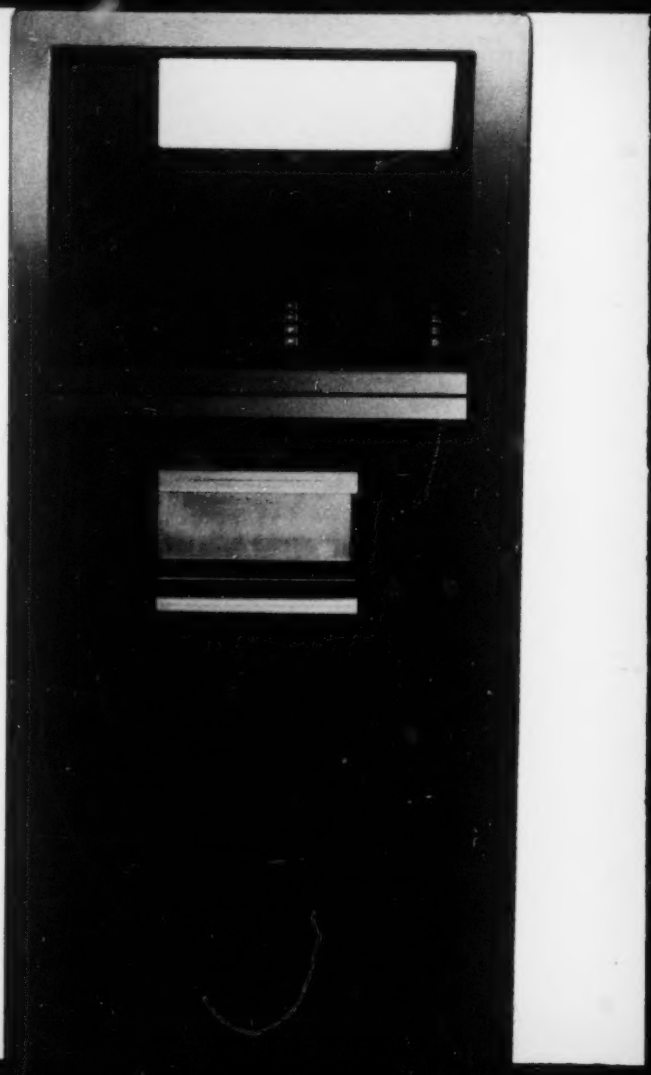
Source: *American Banker* survey, 1987

VOICE OF THE CONSUMER

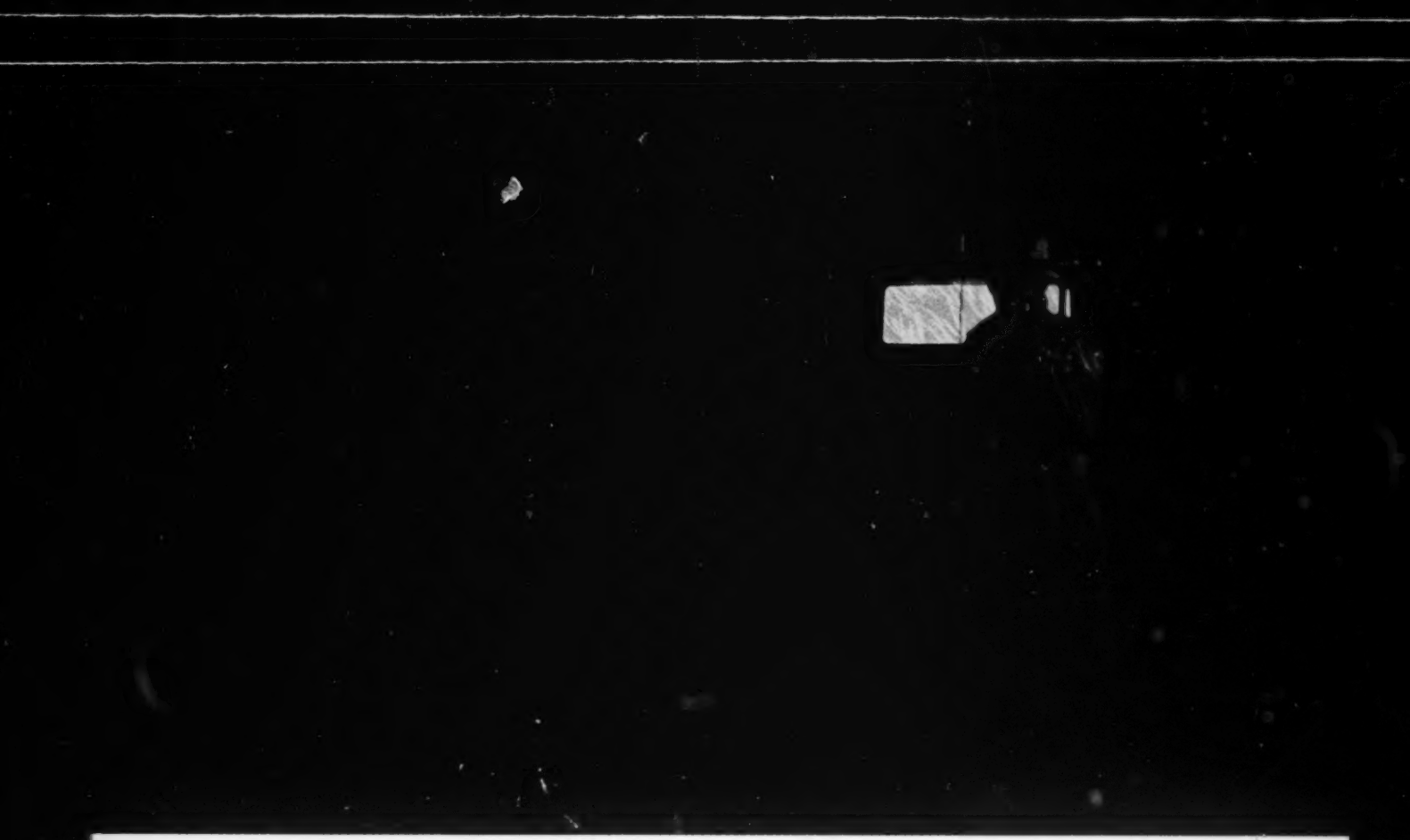
"THEY NEED TO KEEP COMPUTERS STRAIGHT. THEY'RE A PAIN IN THE ASS. MY DEPOSITS ARE NOT PUT IN FAST ENOUGH. I MAKE A DEPOSIT TO MY ACCOUNT, AND FOUR DAYS LATER WHEN I WRITE A CHECK, IT ENDS UP BOUNCING."

— Middle-aged truck driver from a Michigan city

NCR. BECAUSE YOUR REPUTATION IS ONLY AS GOOD AS THE ATM IT RESTS ON.



Shown: 5085 ATM with 5285 Commercial Depository.



It's a fact of automated life. When your customer uses an ATM he's "going to the bank." And if the machine fails, your reputation suffers.

It's also a fact that an ATM is only as good as the vendor behind it. So it makes sense to choose ATMs from a company with the resources to support your good name. And the most sensible way to do that is to choose NCR.

Because we set the standards for ATM performance. With a 98% uptime guarantee option that promises exceptional performance. And a family of products to go where your customer needs us. Lobbies. Vestibules. Walkups. Driveups. And more.

And while we serve your customers' interests, we also protect yours. With modular designs that make it simpler to get the exact functions you want in your machines. Easier to upgrade or make alterations. And faster to repair.

We protect your investment by being easily compatible with existing ATM networks. So as you add new generations of ATMs you don't have to worry if we'll fit in. We'll get along just fine.

And we protect it all with one of the biggest, best trained service networks in the business. Operating from more than 700 field service locations across the country. It's an army of people dedicated to keeping you up all night.

So don't worry about guarding your reputation. Phone us at 1-800-CALL NCR and we'll give you the details about how NCR ATMs can protect your interests. It's the safest call you can make.

NCR

NCR ATMs. A FOUNDATION FINANCIAL INSTITUTIONS CAN BUILD ON.

© 1987 NCR Corporation.

EXECUTIVE TIPS Suggestions for how to make *American Banker's* survey data work for you

How to . . . Keep Consumers Happy

☐ Consumers love the service, interest rates, and feel of credit unions . . .
- so act more like a credit union and less like a commercial bank; think "family," not "customer" or "employee"
- hire credit union people to head up training programs and as customer-service representatives
- appeal to group loyalties with affinity programs aimed at specific ethnic groups, occupations, and hobbies.

☐ Service is the top-rated consumer concern . . .
- so start a program to guarantee service quality
- offer employees incentives to be friendly, reliable, and competent
- personalize your communications by using customers' names
- give employees instruction in memory retention so they can call customers by name and remember key facts about them
- get employees to stand up, greet customers, and say "thank you"
- do telephone and mail surveys asking customers how they like the service and what they would like done differently
- make anonymous phone calls to your customer-service representatives to see how well you are treated
- treat your employees the way you want them to treat the public
- put quality service in the job description of every employee
- make top officers available to customers through publicized "coffee breaks with the boss," as a sign that the commitment to service is from the top down.

☐ People age 55 and older tend to stick with their principal financial institution more than younger people . . .
- so reach out to younger customers and build up loyalty by the time they reach age 55
- and provide incentives for remaining loyal.

☐ 25- to 39-year-olds tend to be more sensitive to service, rates, and fees than any other market segments . . .
- so avoid raising prices to a level they may not tolerate
- make a marketing fuss when you lower prices
- remember they — and their offspring — will be customers for generations; today's mass market contains tomorrow's affluent
- put more young people, directors of small business, and entrepreneurs on your board of directors
- meet with sociologists, professors, and demographics experts in your area who follow trends in younger market segments.

☐ People who call something other than a bank, thrift, or credit union their principal financial institution express the lowest levels of satisfaction . . .
- so figure out what brokers, mutual fund firms, insurers, and finance companies do wrong and capitalize on their flaws and your own advantages.

☐ People who call a thrift institution their principal banking company feel far less satisfied with their thrift today than they did a few years ago . . .
- so find out what's turning people off
- talk straight to consumers about problems of thrifts, emphasizing safety of their funds
- keep service excellent and rates competitive.

understanding of "service" than bankers.

"For 20 years bankers have thought relationship management was managing accounts better. That isn't what people want, especially the affluent. They want an advocate in an institution which is so filled with turf wars and territoriality that it precludes the personal relationship that they are willing to pay for," says Marilyn Barnewall, president of the MacGruder Agency in Aurora, Colo.

The affluent expect first-class service, she says. "What they will pay extra for is expertise."

Middle-market individuals, who constitute a majority of the consuming public, may not be any different. Ms. Barnewall's comments emphasize the importance of a major shift in consumer responses uncovered by the Yankelovich Monitor, a yearly survey by Yankelovich Clancy Shulman, a marketing and consulting company in Westport, Conn.

According to Ann Clurman, senior vice president, there was a sharp increase between 1978 and 1984 in the number of consumers saying service at banks improved. But that figure took a big dive in 1984 and 1985 and has been holding at the lower level ever since.

Ms. Clurman says she thinks the drop in consumer rating of bank service is interesting because some industries, such as supermarkets and restaurants, have gotten better marks in the past two years.

"I don't think the lower marks banks got are due as much to a deterioration in service as to confusion over deregulation. There are so many things to choose from, and there just isn't any good information available.

"Advice is a critical part of the service component," says Ms. Clurman. "And it may be that banks are not delivering."☐

Why Switch Financial Institutions?

The survey finds that service and convenience are big factors in allegiance

BY LAURA GROSS

Last year, 10% of the public quit patronizing their most important financial institution and took their business elsewhere, according to *American Banker's* latest consumer opinion survey.

Switching among main financial suppliers occurs most among affluent individuals and consumers under 40 years of age. The likelihood that people will change decreases with age and increases with income and education, the results show.

The survey indicates that convenience-related issues account for less than half the reasons people switch lead institutions. The others are a mix of price, product, and service concerns.

Among the 10% who say they changed their main financial institution, the reason given most by 25% of this group is that they changed residence. Next, 21% mention issues related to service or errors, 13% say they wanted to avail themselves of more convenient locations, 12% were after better interest rates, and 9% sought to escape too-high fees or balance requirements. Other reasons mentioned for changing a lead institution are the range of products, bad advice, and difficulty getting a loan.

Industry observers say that a figure of one in ten consumers changing principal financial institutions annually sounds about right. They use as a yardstick a national average of between 15% and 25% of the public who close accounts at commercial banks each year.

But "that 10% figure could be quite substantial if it proves to be cumulative," says Irving F. Leveson, senior vice president and director of research at the Hudson Strategy Group, a subsidiary of the Marsh & McLennan Cos.

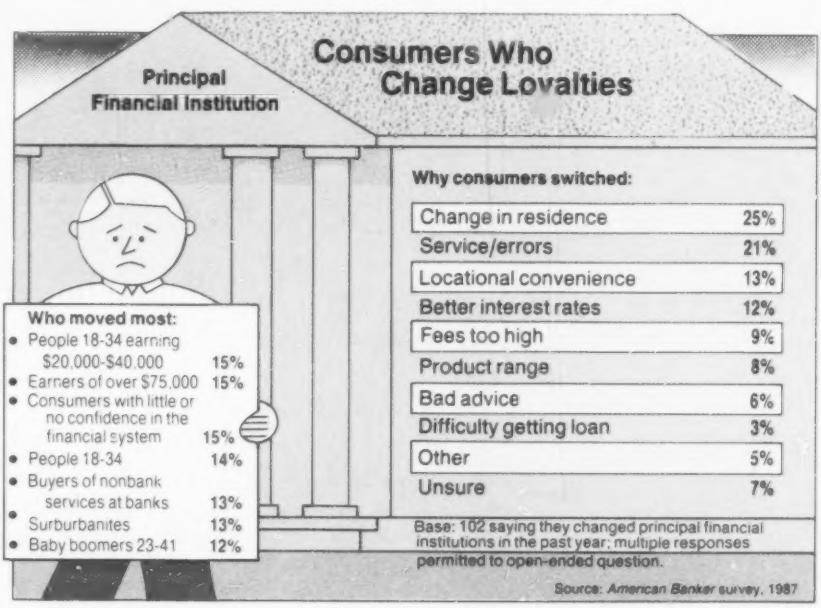
It has been a a common belief that consumers change their principal financial institutions mostly because they move to new locations. The *American Banker* survey shows that issues about convenience are cited by less than half the people who switch allegiances.

These findings are backed by data from another survey by Trans Data Corp. which show that factors financial institutions can control such as price and service, not convenience-related ones, are responsible for 60% of closed deposit accounts.

In addition, data collected by Marilyn Barnewall, president of the MacGruder Agency, a marketing consulting firm in Aurora, Colo., show that the commercial banking industry's best customers are among the people who close accounts for nonconvenience reasons.

"Of those people who close accounts for reasons other than that they leave town, 75% are middle and affluent market customers, the more profitable customer groups," Ms. Barnewall says.

"In the last three to five years, deregulation has put the once-classic, phlegmatic and ever-loyal bank customer into mo-


Consumers Who Change Lovalties
Principal Financial Institution
Who moved most:
• People 18-34 earning $20,000-$40,000 15%
• Earners of over $75,000 15%
• Consumers with little or no confidence in the financial system 15%
• People 18-34 14%
• Buyers of nonbank services at banks 13%
• Surburbanites 13%
• Baby boomers 23-41 12%
Why consumers switched:
Change in residence 25%
Service/errors 21%
Locational convenience 13%
Better interest rates 12%
Fees too high 9%
Product range 8%
Bad advice 6%
Difficulty getting loan 3%
Other 5%
Unsure 7%
Base: 102 saying they changed principal financial institutions in the past year; multiple responses permitted to open-ended question.
Source: American Banker survey, 1987

tion. This makes the financial institutions' job of catching him as he flies by more challenging than ever," says Edward Furash, president of Furash & Co., a management consulting firm in Washington, D.C.

"This destabilization of relationships is a permanent consumer event," Mr. Furash adds. Other analysts agree.

"We're just beginning to see the effects of how marketing has changed in this industry over the past six to ten years," says Al Paro, director of advertising for the American Bankers Association.

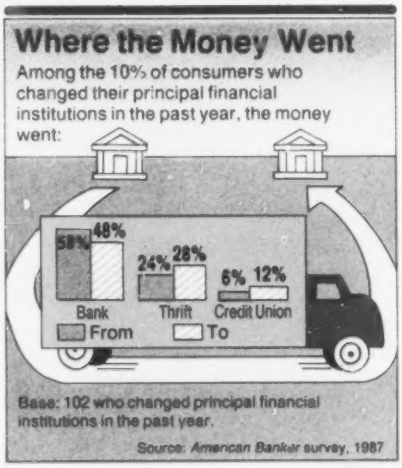
He confirms that the trend toward switching is being led by people between the ages of 25 and 40 "who have very little loyalty. They are spread out up and down Main Street," Mr. Paro says.

"This trend will escalate because the younger generations are less in awe of the banking industry than their parents. They are exposed to a wider range of options, and much deeper communication about those options, and they have much more education than previous generations," says John A. Russell, vice president of marketing for Banc One Corp., Columbus, Ohio, and president of the Bank Marketing Association.

That increased educational level means that "they are not likely to walk past a bank and genuflect. They are more likely to wonder, What are these guys going to charge me this month?" says Fabian Linden, director of the Conference Board's consumer research center.

"You can't overestimate how important it is that you are dealing with a very well educated group here. These are the people who pride themselves on the fact that they know how to beat the system. They think they can make things happen," says Ann Clurman, senior vice president of Yankelovich Clancy Shulman, a marketing and consulting firm in Westport, Conn.

"These are the people who tell you, 'Detroit had to knuckle under because we bought Japanese cars.' They read the business pages. They know if there's a sale on Monday in one store, they'll be better off waiting until Tuesday and shopping elsewhere.



"They are in tune with what's in and out of fashion. They talk about a lot of their personal business with their peers. They discuss what to do with their money, and they aren't particularly loyal because they don't see that as smart or strategic," Ms. Clurman explains.

Despite complaints by consumer groups over high interest rates on consumer credit, the *American Banker* survey found that only about 2% of the public switches main financial institutions for price-related reasons, such as fees or interest rates. Fees and rates are mentioned by a fifth of those who switched.

But there is some evidence that price sensitivity is on the rise and will increase as the baby-boom generation matures.

Survey responses to open-ended questions show that people 25 to 39 are notably price-conscious. For example, when asked why they prefer to use a variety of financial services suppliers as opposed to just one, those 25 to 39 who choose that option say most that they like to shop around for better rates and fees. The rest of those preferring multiple service providers say they think specialists are best.

"We can hypothesize from our data that interest rates — whether on credit cards or deposit accounts — will become more of an issue in the future," Ms. Clurman says.

Already, Trans Data Corp. reports that in a separate survey, 7% of credit card customers closed their accounts last year, most of them for price-related considerations.

That does not mean everyone is on the way to becoming a rational pricer — someone who makes purchases based on price alone — according to Jack W. Whittle, chairman of Whittle & Hanks, a Chicago marketing and management consulting firm.

"If that were the case, everyone would be buying cheaper cars, and shopping in K mart. But the opposite is true. Bloomingdale's and Bergdorf's are doing quite well," Mr. Whittle notes.

It is a combination of factors that causes people to decide where to make purchases, Mr. Furash says. "You wear a line of clothes because it is 'you.' You use a certain financial institution because it is 'you.'

"It's when the relationship between the perceived value of doing business with an institution and the price it asks gets out of whack that people will move to a cheaper provider," Mr. Furash says.

Credit Unions Increase Share

He thinks that kind of an imbalance at commercial banks has caused a boom in credit union membership. According to the Credit Union National Association, there has been a swelling in the numbers of credit union members to 65 million people, or one in three U.S. adults.

At yearend 1986, credit unions held 6.1% of the nation's consumer savings market, up from 4.9% two years prior.

Among the 102 consumers in the *American Banker* survey who say they switched principal financial institutions last year, credit unions captured double the number they lost. About 12% of the public say they chose a credit union, while 6% say they abandoned one. That compares with 48% who say they left a bank and 58% who say they chose one. It was nearly a wash for savings and loan institutions; 24% left and 28% came in.

In the *American Banker* survey, 15% of people 18 to 34 years old earning $20,000 to $50,000 a year switched lead financial suppliers, more than any other age and income subgroup.

"We've got to repent from overzealous pricing and driving customers out of the bank," Mr. Whittle admits.

VOICE OF THE CONSUMER

"THE OTHER BANK DID NOT WANT TO DO BUSINESS UNLESS YOU HAD A LOT OF MONEY."

— Middle-aged, middle-income skilled laborer from a Texas city

See us at Booth #1224 at ABA National in Dallas.

FROM THE WORLD LEADER IN BANK SOFTWARE!

Today's Top Tellers Aren't Leading The League With Yesterday's Gear.

DIMENSION 4000 TELLER TERMINAL

The system that goes far beyond exemplary customer service to provide transaction analyses and marketing reports to every area in the bank!

The Teller Terminal System from The Kirchman Corporation gives your tellers a complete electronic journal of all activity performed. With Dimension 4000 Teller Terminal software, your tellers can make on-line inquiries for balances and transaction information to give your customers maximum responsiveness. At the same time, the system tightens control over possible losses by providing immediate updates to account balances and by alerting tellers to exception conditions. The outstanding report capabilities of this system heighten bank productivity by identifying staffing requirements and monitoring operational procedures. It is flexible enough to interface with virtually any terminal hardware and may also operate in a CRT mode, allowing others in the bank to utilize its transaction capabilities. And, with up-to-the-minute reporting you now have the ability to track your market penetration and to identify products and services your customers are expecting.

Kirchman software has been used by competitive bankers in over 6,000 banks around the world for nearly two decades. We are proud to announce that IBM has recently selected The Kirchman Corporation (formerly Florida Software) as a partner in a new joint marketing program for our nation's banks.

To be sure your tellers are offering big-league service to your customers, simply call us toll free at 1-800-327-1892 or call your IBM representative. We'll send you the full details on our highly sophisticated Dimension 4000 Teller Terminal System. Thank you.

THE KIRCHMAN CORPORATION

Bank Software. It's All We Do. And We Do It Best!

P.O. Box 2269 • Orlando, FL 32802-2269

"We've got to figure out how to get the yuppie and the young person back into the bank who might have gone to a savings and loan or credit union," Mr. Whittle says.

Mr. Furash says it is critical to please middle-market consumers and young adults who are moving into the middle-market segment.

"The issue you have to recognize as you change pricing and factors related to it is that you are tampering with your most insistently loyal customer base," he says.

"Traditional financial services providers are in danger of fighting with their best customers," he adds.

"All the new consumerist issues — credit card interest rates, mutual fund fees, truth in savings, usury ceilings, funds availability — are issues of the moneyed middle class, not the financially disadvantaged," he explains.

Justin L. Moran, president of his own management consulting firm in Ann Arbor, Mich., urges banks to emphasize direct deposit of payroll — a major lure for

Changing Suppliers Leaves Many Disappointed

Just because people change their principal financial institution doesn't mean they will be more satisfied after the switch, the *American Banker* consumer opinion survey shows.

As a matter of fact, they are likely to be less satisfied. Consumers who switched allegiance from one main financial services supplier to another are twice as likely as the general public to say they are dissatisfied.

Compared with 10% of the public as a whole, 19% of those who are currently dissatisfied report having switched lead financial suppliers in the preceding year. Also, 13% of those who are less satisfied today than in the past report having switched.

Why are people who switch allegiance so negative about their new financial services company?

"When people move or come into a new organization it's a traumatic event. The most sensitive time for consumers is right after they have bought something for the first time. If they've changed residence, they might be irritable and frustrated, and they could be taking that out on the new institution," says E. Laird Landon, president of Laird Landon Consulting Inc., Humble, Tex.

The psychological theory of cognitive dissonance, Mr. Landon explains, "says right after you make a choice you are unsettled about whether you did the right thing, and if you get excellent after-sale service it reduces the dissonance and makes you feel better.

"If you get poor service right after, you may try to undo it. You may say, 'Boy, did I make a mistake.' So this is a very important time and one when you want to hit customers with lots of support and excellent service."

Mr. Landon suggests that new account openings ought to trigger personal letters from the company's president saying how much the institution appreciates the business and offering information on other services.

Roll Out the Welcome

The *American Banker* survey shows that about a quarter of the people who switch principal financial institutions do so because they changed residence. Mr. Landon says it is important to treat these new arrivals especially well. If they are new in town, he adds, customers with large balances rate a phone call to welcome them and offer help getting settled.

Some banks have newcomer programs, but few have gone as far as First Interstate Bancorp, Los Angeles, to make the newcomer feel at home.

Starting last February, First Interstate began the North American customer exchange, a 33-state network that facilitates referrals among banks when consumers move.

Participants in 18 of the states are members of the First Interstate group; the 14 others are the Barnett Banks in Florida; Mellon Bank, Pittsburgh; BayBanks Inc., Boston; First Union National Bank, Charlotte, N.C.; Bank of Montreal; Worthen Bank & Trust Co., Little Rock, Ark.; First National Bank of Chicago; Maryland National Bank, Baltimore; National Bank of Detroit; Allied Banks in Texas; United Virginia Bank, Richmond; Commonwealth National Bank, Harrisburg, Pa.; AmeriTrust Co., Cleveland; and Citizens and Southern National Bank, Atlanta.

Tabs Kept on Movers

The exchange concept evolved from a six-year-old newcomer program called "The bank that moves with you," run by First Interstate among its subsidiary banks. Both programs offer incentives to employees to spot people who are leaving the community. Every night, as part of the new customer exchange, closed-account data about consumers moving between states is fed into an on-line system.

"Tomorrow, Barnett will be able to pick up a screen of data that tells them who is moving into their area from other parts of the country," explains Alexander W. "Pete" Hart, a senior vice president of First Interstate Bancorp, Los Angeles.

The exchange issues consumers special credentials they can use to open accounts at banks where they are moving, according to Evon Rosen, assistant vice president.

"Since banks accept this with out-of-state identification, they can get their account going faster than if they were just to walk in off the street," Ms. Rosen says.

The program also offers an opportunity for consumers to open new accounts before they move, gives them 200 free checks, and provides coupons good for discounts on van lines, rental trucks, hotels, and other moving expenses.

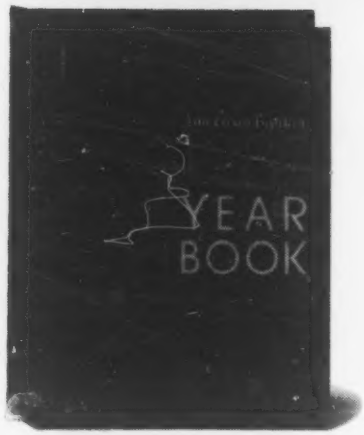
According to John O. Smith, senior vice president of consumer marketing at First Interstate, 26,000 customers have been assisted through the exchange since it began in February.

"Moving is hard enough," Ms. Rosen says, "so we are trying to do everything we can think of to attract moving customers and make it as easy as possible for them to establish a relationship with us."

"For our customer who's moving," she adds, "it's a way of trying to make their move a little bit easier."

— L.G.

Statistics, surveys, directories, key trends and major events in banking and financial services.



Ditto.

Searching for vital financial information can be a tedious task. Every important fact seems to come from a different source.

That's why *American Banker* introduces the first annual, comprehensive reference tool that saves you valuable time and effort: the *American Banker 1987 Yearbook*.

IT'S A BOOK CONTAINING STATISTICS – HISTORICAL AND CURRENT.

All the important tables and listings published in *American Banker* in 1986 are assembled in one volume – then organized into five major categories: commercial banking, mortgage banking, international banking, thrifts, and major finance companies. Learn about the top financial services participants, your competition and prospective merger/acquisition partners.

IT'S A BOOK CONTAINING SURVEYS AND ARTICLES ON KEY TRENDS AND DEVELOPMENTS.

American Banker editors and reporters keep you in touch with the hottest issues from Washington to Wall Street, from regional banking to international banking, and from products to people.

IT'S A BOOK CONTAINING DIRECTORIES.

You'll find up-to-date addresses of banks, thrifts and mortgage companies, an entire section of listings and phone numbers of regulators and associations, and a handy guide to the power people in Washington.

IT'S THE AMERICAN BANKER 1987 YEARBOOK.

And it's available at the introductory price of just $76 per copy, 20% off the $95 list price. And if you order more than one, each additional copy will cost only $65. But order now. Supplies are limited.

So for the most vital information on banking and financial services, you can either spend hours searching through a stack of different sources, or you can spend a few seconds and cut out this coupon.

No risk offer. Return within 15 days for a full refund.

Please send me ____ copies of the *American Banker 1987 Yearbook*. (The first copy costs only $76. Each additional copy is just $65.)

☐ Payment enclosed ☐ Bill me
☐ Bill my credit card: ☐ Visa ☐ MasterCard ☐ American Express

SIGNATURE

CARD NUMBER EXP. DATE

NAME TITLE

COMPANY ADDRESS

CITY, STATE, ZIP

To order by phone, or obtain more information, call toll free, **1-800-221-1809**. In New York, call **212-943-6308**. Or write to *American Banker*, One State Street Plaza, New York, NY 10004-1549.

credit unions — make small loans, become aggressive real estate lenders, improve employee training, and get service charges back into line.

"We're going to have to go back in and figure out how to win them back without giving them free checking," says Mr. Whittle.

"Trying to get the consumer to accept perceived value-added by pushing some kind of nebulous quality of service will not work in a world where service is on the verge of becoming the next commodity," Mr. Furash says.

He says banks can set themselves apart from the crowd by offering personal financial advice and lowering perceived risk.

Other industry leaders wonder what the fuss is about if only 2% of the public say they switched principal institutions for price-related reasons. Some bankers even think the low percentage is cause for rejoicing.

"Our sense was that the public was greatly disappointed when banks began pricing according to cost, so I thought it would have been larger," says Mark Olson, president of the American Bankers Association, and of Security State Bank of Fergus Falls, Minn.

"Even though fees have been established in a way some might say is high or unattractive, that hasn't had a negative effect on profitability," says C.C. Hope, director of the Federal Deposit Insurance Corp.

"I don't see that bankers are really losing that much business to credit unions," Mr. Hope says. "It doesn't show up in the marketplace. The profitable banks keep growing and keep getting more profitable."

"Consumers have been willing to pay what we've charged so far, and perhaps there's room to raise prices more if only 2% are changing for price," says John O. Smith, senior vice president of consumer marketing, First Interstate Bancorp.

"There is a feeling we are at the top of the fee ladder," he says. "But consumers haven't voted with their feet yet." □

VOICE OF THE CONSUMER

> "THEY ARE NOT ON THE LEVEL ANYMORE."
>
> *— Low-income retired woman from suburban Pennsylvania*

EXECUTIVE TIPS Suggestions for how to make *American Banker's* survey data work for you

How to . . . Stop Consumers from Leaving

□ People with incomes over $75,000 annually are more likely to switch principal financial institutions than others . . .
- so target the affluent for special care and find out what will attract more of them
- and computerize the customer list for cross-selling.

□ Customers who change financial institutions do not necessarily feel greater satisfaction with their new choices . . .
- so roll out the red carpet for newcomers to help them get over the trauma of the change
- and conduct exit interviews with customers who leave, to try to get them back.

□ Customers who have changed institutions did so for a reason . . .
- so give each one a "welcome survey" to find out why they moved and what they liked and disliked about their previous supplier.

□ Location is a major reason customers change institutions . . .
- so highlight convenient locations
- and research new home purchases and business relocations to catch newcomers before they stumble onto some other financial services company.

□ Young adults 18 to 34 years old — tomorrow's mainstream banking market — are among the most likely to switch principal financial institutions . . .
- so identify the profitable members of this age group while they're young and keep their business as it grows
- and teach young people that their banking loyalty will be rewarded, through programs in high schools.

□ A fifth of the people who switch principal institutions do so for price-related reasons — fees too high, balance requirements too hefty, or interest rates better elsewhere . . .
- so be attuned to the competition's rates and terms and adjust yours accordingly.

□ People who like to do all their financial business with one institution switch principal providers more than those who use multiple firms . . .
- so realize that they're likely taking more than one account with them
- recognize that, once they're gone, you've lost them forever
- create a special hotline to handle complaints expediently for people with several accounts
- build other programs to keep them satisfied so you can keep their business.

□ People age 55 and older are the least likely to switch principal financial institutions, and Americans are living longer every year . . .
- so hook onto the elderly boom now
- put more people from that age category on your board of directors
- meet with local chapters of groups such as the American Association of Retired Persons to learn more about their wants and needs
- enter into joint ventures with groups such as AARP and others whose business it is to help elderly Americans
- get public relations points for supporting programs to help the elderly in nursing homes, hospitals, and rehabilitation centers
- make a good impression on them and you might win the business of their offspring — because the family is the core affinity group.

The Competitors

Almost everyone has heard of Sears, Roebuck & Co. ♦ More people bought something at an office of the Sears Financial Network three years ago ♦ The number of people with Discover has doubled in just one year ♦ Obtaining cash advances from automated teller machines is the favorite financial service of Discover cardholders ♦ Sears ranks first among nine financial giants when it comes to best meeting consumer needs and being most in the forefront of change and innovation ♦ American Express tops the bankcards for a wide range of features.

Sears' Retail Clout Helps Its Financial Network

Consumer awareness is high, thanks to the company name and the ad blitz for Discover

BY JAY ROSENSTEIN

With three out of four Americans visiting its stores every year, Sears, Roebuck and Co. has clearly captured the country's attention when it comes to retail merchandise.

Now the latest national opinion survey from *American Banker* indicates that Sears' merchandising muscle has helped its financial services business get off to a powerful start.

The newspaper's fourth annual consumer telephone poll shows that recognition of Sears and its financial services businesses is high — and getting higher. This is especially true among upscale consumers, who are the most likely to take their borrowing and investment needs to units of the Sears Financial Network: Dean Witter securities, Allstate insurance, and Coldwell Banker real estate.

Consumer recognition has also been aided by heavy advertising of Sears' Discover card, introduced nationally in early 1986.

Highlights of the poll:

- 96% of consumers say they are familiar with Sears, placing it atop a list of nine financial services giants mentioned in the survey;
- 62% say they have seen, heard, or read about the Sears Financial Network. That is an increase of 41% since 1984, when 44% of consumers said they were aware of it;
- 84% of those with household incomes of $50,000 or more this year say they know of the Sears Financial Network. That is an increase of 31% from three years ago, when 64% of this income group reported awareness of the network.

Sears officials say their own research shows similar increases in customer recognition and favorable impressions of the company.

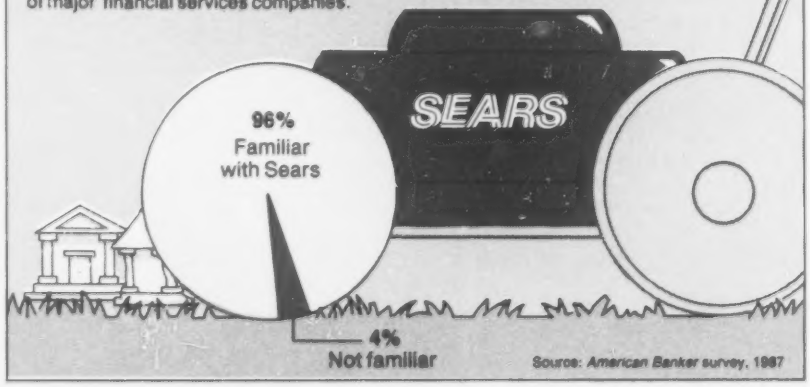
The high recognition levels for Sears and the Sears Financial Network came as no great shock to observers. A few industry analysts even said it is surprising that 100% of consumers were not aware of Sears. Allan Stewart, senior vice president of administration and planning for Sears in Chicago, says: "We have a unique relationship with 76% of the 90 million households in America. That adds up to 68 million households that have some relationship with Sears," be it socks or stocks.

Edward Weller, a securities analyst with Montgomery Securities in San Francisco, attributes the increase in awareness of the Sears Financial Network in part to the fact that "Discover has been very heavily exposed in lots of the media and that Allstate, Dean Witter, and Coldwell Banker now have the tag lines in advertising that they are members of the Sears Financial Network."

There are several reasons fewer people say they are aware of the Sears Financial Network than say they know Sears the retailer. One is that Sears has been around for 101 years — far longer than its financial network. Another is that there are many more Sears outlets than the 326 in-store financial centers, which are located primarily in major Sears stores.

Almost Everyone Has Heard of Sears

More consumers claim familiarity with Sears than any of eight other firms on a list of major financial services companies.



Source: *American Banker* survey, 1987

Nationwide, Sears has 3,382 sales offices — 807 general merchandise stores and 2,575 specialty and catalog stores. The latter range from computer centers to independent gas stations and mom-and-pop grocery stores that take Sears catalog orders. And there are 8,700 other outlets for Dean Witter, Coldwell Banker, and Allstate.

In addition, Sears officials say that awareness of their financial network would have been higher if the survey had mentioned individual subsidiaries by name. Sears' strategy is to market its financial services products under the separate Allstate, Coldwell Banker, and Dean Witter names, followed by the tag line "a member of the Sears Financial Network."

Howard Lax, vice president of Trans Data Corp., says, "I'm sure if you were to separately ask people if you know or have any business with Allstate, Coldwell Banker, or Dean Witter, the percentage would probably be higher than those who say they know or use the Sears Financial Network. The Sears Financial Network does not necessarily work as an umbrella term that people identify with."

Sears officials say that the higher level of awareness found in the survey among households with incomes of $50,000 or more is in line with the company's own research and its strategy.

"The financial network strategy has been to target somewhat above the $25,000 median household income level in the country," says Jim Keller, Sears' market research manager for corporate planning in Chicago. "We are not specifically pinpointing the $50,000-and-over segment, but they are a part of that general target market." The upscale market is particularly important to Dean Witter for its investment services.

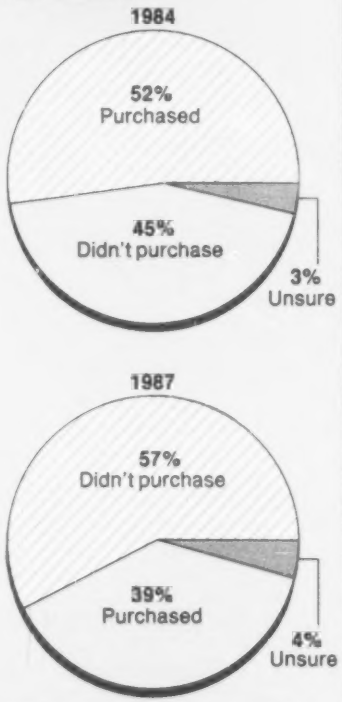
It is difficult to determine from the survey exactly how much of Sears' high recognition translates into financial transactions. One reason is that some consumers may confuse Sears the retailer with Sears the financial services provider.

When the 20 people who said they bought something from the Sears Financial Network in the past year were asked what they purchased, seven described merchandise — including three refrigerators, two stoves, two washers, two driers, a leather jacket, and a garden tiller. Five people said they bought insurance, two said stocks and bonds, two said individual retirement accounts, and one each said they got a loan, a money market account, and a Government National Mortgage Association security.

The Sears Financial Network

Buying from It

A similar number of people report visiting an office of the Sears Financial Network in 1984 and 1987. More consumers three years ago said they bought something.



Base: 33 people in 1984 who visited a Sears Financial Network in the preceding 12 months, which was 8% of the 437 who said they saw heard or read about the Sears Financial Network; and 51 people in 1987 who visited a Sears Financial Network in the preceding 12 months, which is 7% of the 704 saying they saw, heard or read about the Sears Financial Network.

Source: *American Banker* survey, 1987

The placement of financial services in department stores, grocery stores, and other nontraditional locations inevitably results in a blending of images, says Stuart Feldstein, president of SMR Research Corp. in Budd Lake, N.J.

"I think you'll find continuing confusion among consumers trying to recollect what it is they got at a store that offers everything. To me, this is an unavoidable confusion which is not necessarily bad for financial companies," Mr. Feldstein says.

Although some consumers say they bought retail merchandise from the Sears Financial Network, company officials do not see that as a problem. As their proof, they point to sales results. Sears will not provide a breakdown of in-store performance versus other outlets, but Mr. Stewart says that revenues from in-store Allstate insurance, Dean Witter securities, and Coldwell Banker real estate offices have been very gratifying.

Sears' total income from its financial services business must also be gratifying. During the first half of this year, financial services showed net income of $586.4 million, or 86% of the $678.3 million in overall net income. During the same period three years earlier, the financial services business brought in 57% of the company's total net income of $569.8 million.

Even Dean Witter showed a $37.1 million profit for the first half of this year, despite steep losses connected with launching the Discover card, a Dean Witter product.

The *American Banker* poll shows that 7% of those who say they are aware of the Sears Financial Network also say they visited one of its offices in the past year. That is about the same as three years ago, when 8% said they visited a network office in the year preceding the poll.

But company officials say their own research shows that the number of people visiting Sears in-store financial centers has more than doubled since early 1984 — to 10% of the public in both 1986 and 1987 from about 4% in 1984.

Why has the number of in-store visits to financial centers stayed flat at 10% in the past year? One reason may be that there has been only modest expansion of the centers. But another reason, according to observers, may be that Sears discontinued its TV and print advertising that showcased the financial centers, a campaign that had been running since 1983. This year, Sears is focusing on the individual companies in the financial network, rather than on the in-store centers.

Mr. Keller says the national TV and print campaign was dropped "primarily because it had exceeded all the goals which were established at its inception in early 1983. Several measures in our own research, such as an 85% awareness for the Financial Network and our number one ranking for image attributes, suggested that the campaign had been an overall success and that the cost/benefits of further advertising might be inefficient."

Sears officials also say that asking

about visits to in-store offices fails to take into account the business done at the 8,700 other outlets for Sears financial services. Mr. Stewart stresses that there has been "a significant increase in employees and agents and offices outside the Sears stores that are in a position to deliver the financial services product."

He says that 11 in-store financial centers were added over the past year and no significant growth is planned for this year, but the number of neighborhood Allstate offices with one staffer or just a few will climb by 1,700, or 38%, in the same two-year period. The number of Coldwell Banker real estate offices increased 20% to 1,866 by midyear.

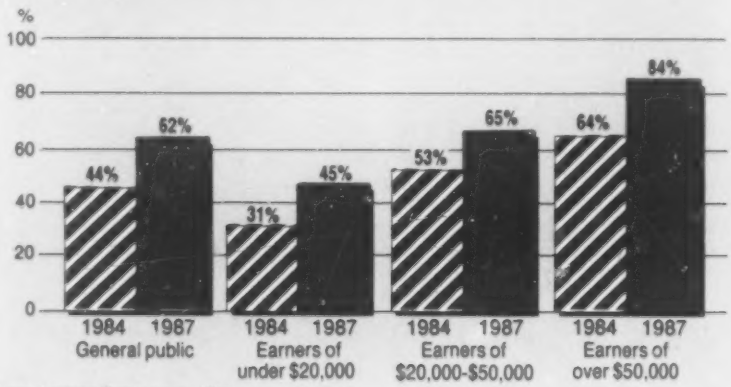
While Sears has changed the form of its financial services advertising, it still pours massive amounts into it. In 1986, Sears spent $1.1 billion on television, print, and other ads for retail and financial services. That is up 13% from the previous year, when the company spent $975.3 million.

Sears does not say how it divvies up the advertising, but a recent report by the not-for-profit Television Bureau of Advertising shows that for all-important TV, Sears spent an estimated $73.2 million on ads for financial services in 1986. That is an increase of 110% over the previous year, largely due to the launch of the Discover card. The bureau of advertising estimates that about a third of Sears' TV ad expenditures for financial services last year — $25.2 million — was spent to promote Discover.' □

The Sears Financial Network

Familiarity With It

Six out of ten Americans say they have seen, heard, or read about the Sears Financial Network, an increase of 41% over three years ago. Awareness is highest among affluent consumers.



Source: *American Banker* survey, 1987

Branches and Britches Under One Sears Roof?

A high level of trust in — and awareness of — Sears, Roebuck and Co. is evident throughout the country. But would many consumers consider leaving their primary financial institution for a Sears bank in a Sears store?

In the latest *American Banker* consumer opinion survey, 7% of consumers say they would switch to a Sears bank if one opened in a Sears store, 80% say they would not switch, and almost 14% are not sure.

Among those who are most willing to switch are 11% of the people who say they are less satisfied now with their main financial institution than they were a few years ago.

Also, 20% of the people who say they visited a Sears Financial Network in the previous year say they would use a Sears bank in a Sears store. This may indicate that Sears is capable of building brand loyalty among financial services customers the way it does among purchasers of retail goods.

These are among the findings of *American Banker*'s fourth annual consumer survey. The national telephone poll was conducted among 1,130 consumers this spring by Trans Data Corp., a Salisbury, Md., research affiliate of this newspaper.

Sears already has about 40 branches of its Sears Savings Bank in some of its in-store financial centers in California. But Allan Stewart, senior vice president of administration and planning for Sears in Chicago, says, "We don't see that as an ongoing strategy in other states. Our banking strategy now is not a brick-and-mortar strategy. We intend to use the Discover card to secure deposits and have an ongoing financial relationship with our customers."

In reality, industry observers say, the decision to switch to a Sears bank branch would be based on economic factors, such as interest rates or fees, or on convenience. As Stuart Feldstein of SMR Research, Budd Lake, N.J., puts it, Sears has recognized that people may drive 10 or 20 miles to a Sears store for an occasional face-to-face meeting with an investment adviser or real estate agent. "But to cash a check or make a deposit," he says, "I'm not going to drive half an hour." — **J.R.**

Discover Card Doubles Its Base in One Year

Sears gets the plastic into consumers' wallets, but whether they will use it is still a question mark

BY JAY ROSENSTEIN

Sears, Roebuck and Co.'s massive promotional campaign for its new Discover credit card — from expensive national TV ads to the tiny decals on store windows — seems to be paying off.

The latest nationwide opinion poll from the *American Banker* shows that the number of consumers saying they have Discover cards has doubled in only a year. The number who say they are aware of the card has also doubled.

Another 8% say they do not now have the card but plan to get one in the next year.

Sears introduced the Discover card nationally in early 1986. Bankers are watching it closely because it competes directly with Visa and MasterCard. Discover also offers credit, savings, electronic banking, investment, insurance, and financial planning services.

From the start, detractors have predicted that consumers might use Discover for purchases but not as a financial services vehicle.

Although it is early in Discover's life to judge the potential for usage, the *American Banker* survey finds that some cardholders are interested in it for noncredit purposes.

The most popular financial service so far appears to be cash advances from automated teller machines; 21% of the 148 Discover card owners surveyed say they have already used it for this purpose. That compares with 6% or less who say they use other Discover features such as depositing into a savings account or getting an auto loan.

Among current cardholders, 40% say they have not yet used Discover to obtain cash through ATMs, but would like to in the future; 32% say they would like to use the card to deposit money into a savings account; 28% each mention getting a checking account and an auto loan; and 26% say they would buy a certificate of deposit.

Of the 81 people who say they plan to get a Discover card in the next year, 73% would use it to get a cash advance through an ATM, 68% would use it to get an auto loan, and 65% would use it to deposit money into a savings account.

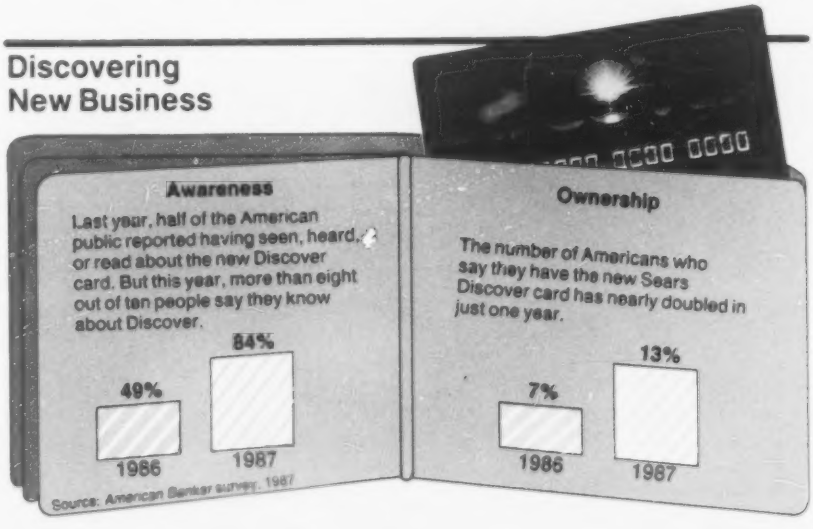
Found in 13% of Households

As for getting Discover cards into circulation, the survey shows ownership has doubled from 7% of the nation's households in the spring of 1986 to about 13% this year.

William Salter, senior vice president and director of marketing for Discover Card Services Inc. in Chicago, says internal research backs up this finding, indicating a doubling of card ownership in one year to about nine million households by mid-1987. More than 16 million Discover cards have been issued so far.

The *American Banker* survey finds that card penetration is strong among classic Sears customers: 21% of suburbanites between the ages of 40 and 65

Discovering New Business


Awareness
Last year, half of the American public reported having seen, heard, or read about the new Discover card. But this year, more than eight out of ten people say they know about Discover.
84%
49%
1986
1987
Source: American Banker survey, 1987
Ownership
The number of Americans who say they have the new Sears Discover card has nearly doubled in just one year.
13%
7%
1986
1987

who earn at least $30,000 a year say they have Discover. Sears officials caution, though, that it may be too soon to describe a typical cardholder.

A doubling of card membership in a year is impressive, but not too surprising. Discover marketers started with a base of about 28 million active Sears charge card accounts. These customers were given the chance to switch to Discover, a card that can be used outside Sears stores, that provides rebates on purchases, and carries no annual fee until at least 1988.

Awareness Is High

As for awareness, 84% say they saw, heard, or read about Discover in the past year. That is nearly double the 46% who said they were aware of Discover last year, just a few months after Sears began promoting the card nationally.

"That type of awareness for a company with the clout of Sears and the millions of dollars they've spent in promoting the card is totally appropriate," says Thomas F. Chapman, executive vice president in charge of retail banking for First Atlanta Corp. "In fact, if I were them, I'd be shocked if it were less."

Awareness increases with income and education levels, the survey shows. For example, 90% of those with household incomes of at least $40,000 say they are aware of Discover, versus 81% of those earning less.

Sears won't say how much it spent on advertising Discover last year, but estimates are in the $35 million to $40 million range.

The not-for-profit Television Bureau of Advertising, based in New York, says Sears spent $25.2 million on TV ads alone last year to launch the new card. That's about the same amount spent by MasterCard last year but almost twice the $14 million spent by Visa, according to the bureau. American Express spent $66.4 million last year, the bureau says, but that includes ads for travelers checks as well as credit cards.

Discover officials say key factors in the growth of awareness in the past year include the increase in card ownership and word-of-mouth publicity; direct mail campaigns in major areas such as New York, which did not begin until late 1986; and the increase in the number of merchants accepting and advertising the card.

There are more than 660,000 merchant outlets for Discover in the U.S., far fewer than the two million or so domestic outlets for Visa and MasterCard, but still a large and growing number.

Of the 8% who say they plan to get a Discover card in the next year, Mr. Salter says this is a realistic projection. "As the card member base increases, we'll pick up momentum. The merchant utility has improved over the last year, and as this grows, more and more people are going to be receptive to the card."

Perrin Long, an analyst with Lipper Analytical Securities Corp. in New York, says another 8% "would be good for Sears, and I think it's realistic because they're starting from a low base."

> "The most popular financial service so far appears to be cash advances from automated teller machines."

Others caution that there aren't enough data yet to predict accurately how many more will sign up for the card or drop it, especially if Sears begins to charge an annual fee like Visa and MasterCard.

Usage Crucial to Success

Bill Powar, vice president for corporate planning with Visa in San Francisco, says Discover's success will be judged "by usage outside of Sears stores and converting that usage into interest-bearing revolving credit balances on the books of Sears."

He explains that interest income is crucial, since Discover currently charges no annual fee and the merchant's fee per transaction is lower for Discover than for Visa and MasterCard.

Regarding payment habits, there appears to be no significant difference between Discover and other credit card owners, according to the *American Banker* survey. Just under half of all cardholders say they usually pay all of the balance due each month, thereby avoiding interest charges, while the rest say they sometimes or frequently carry a balance and pay interest.

Stuart Feldstein, president of SMR Research Corp. of Budd Lake, N.J., says this finding is a good sign for Discover. But he points to his research showing that the average outstanding balance on a Discover card was $520 in April, versus about $1,000 for Visa or MasterCard. Discover eventually could reach that level as more merchants accept the card, he says, "but it's not there yet."

Some observers say Discover may be used for too few purchases outside Sears stores to benefit from merchants' fees and to avoid undercutting Sears' own charge card. Discover officials won't go into specifics, but they disagree with these claims.

"We are not sapping Sears' charge volume on this card," Mr. Salter says. "In fact, we have continually done less volume at Sears than we anticipated." As more merchants around the county accept Discover, usage outside Sears should pick up, he says.

Cross-Selling Is Key

Bruce Brittain, president of Brittain Associates, an Atlanta research firm, is among those who say cross-selling of financial services will be a key to Discover's future. "My research doesn't show much movement on any of the four or five services that they have put some cross-selling efforts into," he says.

Mr. Chapman of First Atlanta contends that as long as bank service quality meets "reasonable expectations, people are going to bank, if you will, locally, where they know the banker, where they have a financial relationship, not by phone."

Discover won't release details about financial services activity, but officials say the results so far have been favorable. They say Discover has been very conservative in testing and rolling out new services. And they stress that the current priority is to bring in new accounts and more merchants, not to offer a huge menu of financial services.

Mr. Salter says the 21% of Discover cardholders in the *American Banker* survey who say they have already used the card for an ATM transaction is higher than the number who actually use the card at ATMs. But he says that figure would have been closer to reality if re-

spondents included using the card and Discover checks to get cash at Sears stores.

Cash Advance Feature in Demand

Some critics say the cash advance service is not special enough to make consumers choose Discover over other cards. They also say a cash advance option does not help Sears sell other financial services. But another way of looking at it is that the cash advance feature is in demand, and it carries a hefty $1.75 transaction fee and a high 19.8% interest rate. Discover officials say they want to have 17,000 ATM outlets accepting the card by yearend, up from 5,000 at yearend 1986.

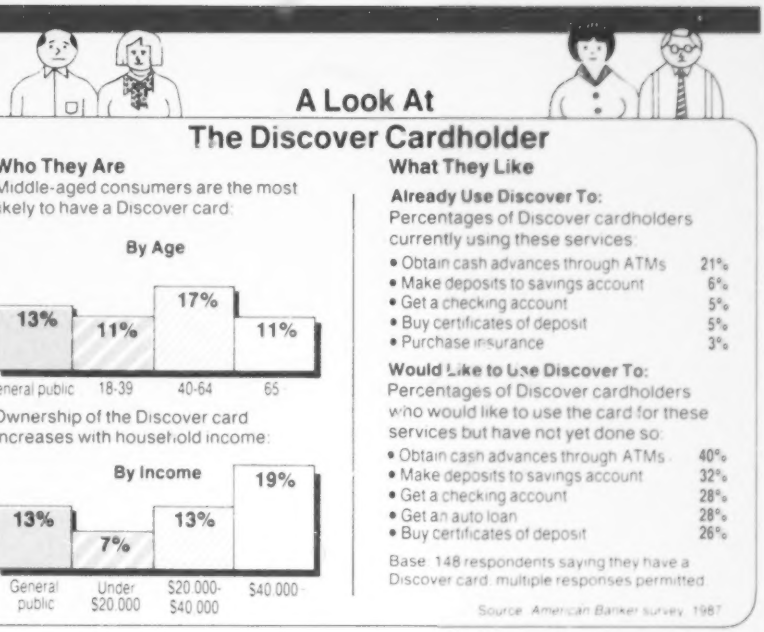
In response to the *American Banker* survey, 6% also say they used the card to make deposits into a savings account. Deposits can be made by check, wire transfer, or mail to a special tiered-rate savings account at Greenwood Trust Co., a Sears banking institution in New Castle, Del. There was $450 million in this special account at the end of April. While 6% of the consumers in the survey say they made deposits, most observers say the actual percentage nationwide is probably closer to 1% or less.

Of those surveyed, 5% say they got a checking account and 5% say they bought a certificate of deposit through Discover. Despite this response, there is no specific checking account attached to Discover, but cardholders can access the savings account with up to three checks a month. Card owners also get checks to access their credit line. Those saying they got a certificate of deposit may have been confused, since Discover does not offer that product.

In other findings, 3% of respondents say they purchased insurance through Discover and 2% each say they got an auto loan and bought shares in a mutual fund.

Starting a nationwide financial services card from scratch is an expensive and intricate proposition, even for a company like Sears, which has vast resources and an existing nationwide charge card operation.

Discover won't discuss how much money it has sunk into advertising, marketing, operations support, systems de-


A Look At
The Discover Cardholder
Who They Are
Middle-aged consumers are the most likely to have a Discover card:
By Age
13%
11%
17%
11%
General public
18-39
40-64
65
Ownership of the Discover card increases with household income:
By Income
13%
7%
13%
19%
General public
Under $20,000
$20,000-$40,000
$40,000
What They Like
Already Use Discover To:
Percentages of Discover cardholders currently using these services:
• Obtain cash advances through ATMs 21%
• Make deposits to savings account 6%
• Get a checking account 5%
• Buy certificates of deposit 5%
• Purchase insurance 3%
Would Like to Use Discover To:
Percentages of Discover cardholders who would like to use the card for these services but have not yet done so:
• Obtain cash advances through ATMs 40%
• Make deposits to savings account 32%
• Get a checking account 28%
• Get an auto loan 28%
• Buy certificates of deposit 26%
Base: 148 respondents saying they have a Discover card; multiple responses permitted
Source: American Banker survey, 1987

EXECUTIVE TIPS Suggestions for how to make *American Banker's* survey data work for you

How to . . . Fight the Sears Financial Network & Discover

☐ Sears got to be known by 96% of the public for its retailing honesty, not its financial services . . .
- so fight back by establishing and maintaining your own honest, consistent image
- and associate yourself with other retailers and trusted local names in your community.

☐ The convenience of multiple locations is often a major factor in decisions about where to do financial business . . .
- so stress the number of locations and services offered near consumers' homes and offices, a point on which Sears is vulnerable.

☐ Those who would switch to a Sears bank in a Sears store tend to be less satisfied with their present primary financial institution . . .
- so keep them happy and you migh keep them from Sears.

☐ A sizable percentage of Discover cardholders want to use the Discover card to make deposits to savings accounts . . .
- so consider pushing that service through your own cards.

☐ Sears is on target in pursuing the favored banking market — people age 40 to 54 earning $40,000 or more . . .
- so keep especially close to those people in order to keep their business; they are becoming net savers of funds.

☐ Sears recognizes that today's busy American wants to do financial business at night and on weekends . . .
- so open branches in shopping malls and provide services on weekends
- and pick up major commercial accounts that want weekend deposit services.

☐ People like quality and courtesy, two things that Sears has promised and delivered . . .
- so take a lesson from Sears and promote hassle-free guarantees and institute return policies on financial products wherever possible.

velopment, or reserves to cover card fraud and bad debts. But losses for 1985 have been estimated by others at approximately $15 million. From financial reports filed since then, it is known that the net loss from Discover in 1986 was $106 million.

During the first half of this year, Discover lost another $63.8 million. It is estimated, therefore, that the launch of the card, from the pilot in 1985 through the first half of 1987, cost at least $185 million.

Although the first-half 1987 loss is higher than the $46.8 million lost in the first half of 1986, Sears officials continue to forecast that losses for all of 1987 will be lower than last year. Edward A. Brennan, chairman of Sears, also has said he expects Discover to be "crossing the break-even point and generating a profit in 1988."

To help bring in business and profits, Discover officials acknowledge that it needs to differentiate itself from other bank cards. Later this year, Discover will unveil a special travel arrangement service, and it is testing an emergency road service for cardholders. Officials are also thinking of adding a certificate of deposit. □

For Additional Copies

Copies of the complete *American Banker* survey series, "How Consumer America Views the Changing Financial Services Industry," can be obtained for $15 each (plus $2 for postage and handling) by sending checks to: American Banker, Attention: Norma Bogle, 1987 Consumer Survey Reprint, One State Street Plaza, New York, N.Y. 10004, (212) 943-8677. Copies also can be charged to American Express, Visa, and MasterCard by calling toll-free 1-800-221-1809. Group discounts are available at $10 each for quantities of three or more. This four-color magazine also contains more than 150 tips detailing how to make the survey data work for you.

This is the fourth annual *American Banker* consumer attitude survey. Reprints of articles describing results of the 1986 survey are available for $10 each.

To:
American Banker
Att: Norma Bogle
1987 Consumer Survey
One State Street Plaza
New York, N.Y. 10004

Please send ..... copy(ies) of the 1987 *American Banker* Consumer America Survey and ..... copy(ies) of the 1986 survey. My check or money order payable to American Banker is enclosed.

Name .....
Title .....
Company .....
Address .....
City .....
State ..... Zip .....

Place Charge Card orders TOLL FREE: 1-800-221-1809.

Consumers Say Sears Best Meets Their Needs

The retailer is found to be more responsive than other giants of the financial services industry

BY JAY ROSENSTEIN

For the second year in a row, American consumers vote Sears, Roebuck and Co. the major financial services provider that is most responsive to the marketplace.

According to the latest national opinion poll from American Banker, Sears ranks above eight other financial services giants as the one that best meets the needs of typical consumers. Given a list of nine companies, 31% of respondents choose Sears. American Express is a distant second with 8%.

The statistic for Sears is a dramatic increase — more than 50% — over last year's finding that 20% of consumers said Sears best met consumer needs.

Sears' dominance is due in part to its being seen as the friend of middle-income Americans. Of those with household incomes between $20,000 and $50,000, 34% say Sears best meets their needs. But among the 64 people in the survey with household incomes of $75,000 or more, American Express was rated tops by 22%, followed by Merrill Lynch with 17%, and Sears with 16%.

Sears also tops the list this year, as it did last year, when consumers choose which of the nine firms is most in the forefront of change and innovation. The survey shows 21% pick Sears; Citicorp/Citibank is in second place, the choice of 7%.

The percentage of those who say Sears is most innovative is also up from last year, when 17% selected the retailing conglomerate.

Consumer attitudes toward other companies on the list show little or no change from last year.

Sears officials said their own data indicate similar leadership in customer recognition and satisfaction.

"Our associates in the financial services business have been working very hard to deliver a good product with good value to the marketplace. We are very gratified [consumers have] been responding as they have," says Allan Stewart, senior vice president of administration and planning for Sears in Chicago.

Heavy Promotion Pays Off

"I'd have to give a lot of credit to Sears. They've been dogged in that financial services promotion," says Bruce Brittain, president of Brittain Associates, an Atlanta research firm that follows developments at Sears.

"High awareness — period — and a strong level of trust, help explain why their numbers are the highest. And their advertising and promotion over the last couple of years has to add to that," Mr. Brittain says.

Observers caution that Sears may have an edge over other financial services firms — especially when it comes to impressions of which company best meets consumer needs — because of its 101-year record as a trusted retailer of socks and clothes driers, not stocks and certificates of deposit.

"As important as financial services are," says Howard Lax, vice president of Trans Data Corp., "buying clothing and things for the house would be considered more of a basic need."

But Stuart Feldstein, president of SMR Research Corp. in Budd Lake, N.J., stresses the importance of consumer trust in Sears. "If 31% of the people think Sears best meets consumer needs, that tells you the story right there. As soon as they come up with the right products, they're going to have a market."

Sears owns the Allstate insurance, Dean Witter securities, and Coldwell Banker real estate companies. Early last year, the Discover card, a general purpose credit card, was introduced nationwide.

Which Best Meets Consumer Needs

	1987	1986
Sears	31%	20%
American Express	8%	6%
Citicorp/Citibank	7%	5%
Merrill Lynch	7%	4%
Prudential Insurance	6%	5%
Bank of America	4%	5%
Beneficial Finance	3%	2%
Fidelity Mutual Funds	2%	1%
Charles Schwab	1%	2%
None	4%	7%
Not Sure	27%	41%

Figures do not add up to 100% due to rounding.

Source: *American Banker* survey, 1987

American Express Stays No. 2

As in 1986, American Express came in second this year in terms of best meeting consumer needs. Last year, 6% cited American Express, and this year 8% did so. American Express ranked no. 1 in this category when the first survey was conducted in 1984, but last year Sears jumped to the top spot. The 1985 survey did not cover this category.

One reason the rating for American Express may have gotten a slight boost this year is the highly visible advertising campaign for its travel and entertainment card, which shows faces of celebrities and the slogan "Membership has its privileges." American Express also drew widespread attention in March when it introduced the revolving-credit Optima card.

Walter Montgomery, senior vice president of corporate communications at American Express Co. in New York, speculated that one reason his firm ranks below Sears in the nationwide poll in terms of meeting consumer needs is that "we have tended to focus on a more upscale marketplace." American Express owns the Shearson Lehman Brothers brokerage firm and IDS Financial Services, a major financial planning company.

Mr. Montgomery also says that, unlike Sears, American Express has decided against putting several of its financial services offices under one roof in one location. "We prefer to think of the company as more a collection of specialized boutiques than a financial supermarket," he says.

Which is Most in the Forefront of Change and Innovation

	1987	1986
Sears	21%	17%
Citicorp/Citibank	7%	5%
Merrill Lynch	6%	6%
American Express	6%	5%
Prudential Insurance	4%	4%
Bank of America	3%	3%
Charles Schwab	3%	1%
Fidelity Mutual Funds	2%	1%
Beneficial Finance	1%	1%
None	3%	7%
Not Sure	45%	49%

Figures do not add up to 100% due to rounding.

Source: *American Banker* survey, 1987

Some Competitors Gain Slightly

Merrill Lynch is another company that seems to have shown an increase in consumer approval. Last year, 4% said Merrill was best at meeting consumer needs, and this year 7% say it is tops.

Citicorp/Citibank, which is based in New York but has various operations around the nation, also seems to have shown a modest increase in the number of people favoring it over others on the list.

Last year, 5% said Citicorp was both the best at meeting consumer needs and the most innovative. This year, those figures rose to 7% in each category. A slight shift in opinion could have been due to a change in the survey question. In prior years, the survey asked about Citicorp. This year, the question was worded to ask about Citicorp/Citibank.

This year's survey also found that 65% of the people say they recognize Citicorp-/Citibank. Last year, 57% recognized Citicorp.

Bank of America Falls Behind

In contrast, Bank of America, the other major banking firm on the list, shows a decline in the number of consumers who say it best meets consumer needs. In 1984, 8% of those surveyed said the giant California company best met consumer needs. That figure decreased to 5% last year and 4% this year.

Possible reasons for the decline might include news reports in the past few years about major losses, a change in top leadership at BankAmerica Corp., and a long, drawn-out takeover attempt by First Interstate Bancorp. BankAmerica's net losses have grown from $337 million in all of 1985 to nearly $1.1 billion in the first six months of this year.

EXECUTIVE TIPS Suggestions for how to make *American Banker's* survey data work for you

How to . . . Fight the Nationwide Financial Institutions

☐ Sears is the nonbank financial services company Americans say best meets consumer needs . . .
- so figure out what Sears has that you don't and get some fast
- be consistent in the image you project
- stand behind your products with sound service.

☐ Merrill Lynch has moved from fourth place to third as the company consumers think best meets their needs, except among affluent individuals, who choose it second only to Sears . . .
- so start catering to young investors as Merrill has
- push discount stock brokerage to younger individuals
- better satisfy your affluent investor customers
- realize that a bull market is a fine time to enter the discounting business, but doing so requires special positioning effort
- recognize just what your business is — financial services.

☐ Citicorp/Citibank has edged ahead of Merrill Lynch into second place behind first-place Sears when it comes to being the institution consumers say is most in the forefront of change and innovation . . .
- so learn from Citi's technological expertise
- recognize that the youth of today value technological innovation
- advertise your innovative strong points.

☐ Among the highest earners, American Express is perceived as the financial firm that is most in the forefront of change and innovation . . .
- so adopt an innovator's posture in your market and serve it from your strengths.

Bob Fienberg, vice president and director of banking operations for Bank of America in San Francisco, agrees that "the challenges that BofA has been confronting over the past couple of years have certainly impacted its image." He adds that in-house studies confirm this finding.

Mr. Fienberg says he thinks Bank of America's image will improve when earnings improve. "As far as our actual service is concerned, in the front lines, we feel it's pretty good," he says. "But whenever a company has severe earnings problems, it inevitably affects the image, especially if you're talking about a national survey where presumably people involved never have any contact with us."

"Sears' dominance is due in part to its being seen as the friend of middle-income Americans."

And while Bank of America this year was known by more Americans (73%) than Citicorp (65%), awareness of the California firm was highest in the western states. As in prior years, familiarity with Citicorp was fairly evenly spread across the country. □

American Express Is Voted First Among Equals

Industry watchers say the card's aura of practicality is a result of skillful marketing

BY MICHAEL WEINSTEIN

Consumers rank the American Express card above or on a par with Visa and MasterCard for a wide range of features.

Industry observers say this high ranking reflects savvy marketing by American Express.

According to the *American Banker*'s annual opinion survey, consumers rate the American Express card as highly as the bank cards for widespread acceptance and even higher for inexpensiveness. These are generally considered to be some of the strongest features of bank cards.

Positive attitudes about American Express can only aid the financial conglomerate in generating business for its new Optima card, a revolving charge card introduced earlier this year.

The survey also shows that consumers believe American Express offers a significant advantage over bank cards in prestige, high credit limits, acceptance in restaurants, and use for entertainment and travel.

The survey based consumer attitudes toward credit cards on the responses of people who have both an American Express card and at least one of the bank cards. Responses from this group of 176 have a maximum sampling error of plus or minus seven percentage points. This is different from the sample used in the 1986 survey, so this year's results are not comparable with last year's.

Industry observers are surprised at the survey's finding that American Express, MasterCard, and Visa are considered about equal in the "accepted everywhere" category.

In fact, the bank cards have broader coverage than American Express. Worldwide, American Express is accepted by 1.8 million merchants, while the bank cards are honored by about 5.5 million merchant outlets. American Express counts merchants, while the bank cards count merchant locations. So if a department store has 10 outlets, it would count as one merchant for American Express and as 10 for the bank cards.

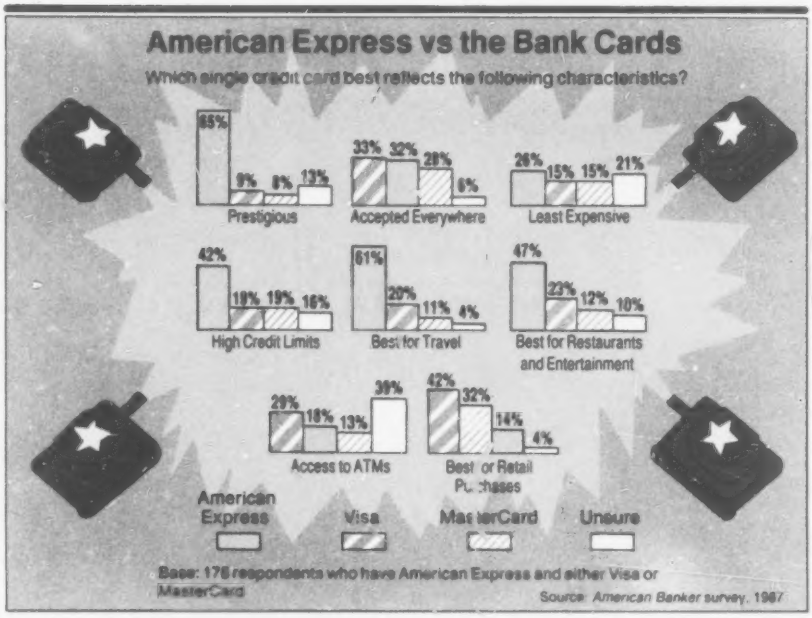
According to research by Visa U.S.A. Inc., Visa outstrips American Express 42% to 17% when consumers are asked which card is accepted by more merchants.

"Amex has done a very good job of positioning when the reality doesn't exist," says Joel P. Friedman, director of strategic management at Arthur Andersen & Co. in San Francisco.

"The real important thing is, where do people who have the card expect to use the card," counters Edwin M. Cooperman, president of the U.S. consumer card group at American Express Travel Related Services Co.

Officials at MasterCard International Inc. disagree with the survey findings.

"We've been seeing an upward trend for MasterCard relative to its competi-



tors," says Brad Iversen, senior vice president at MasterCard.

The *American Banker* survey findings come after MasterCard ran ads for a year touting the widespread acceptance of MasterCard. The ads, part of the "master the possibilities" campaign, ended in the spring.

"Though the public thinks otherwise, bank cards actually have broader coverage than American Express."

American Express Lags

The bank cards outdo American Express in acceptance at retail stores, a market segment that American Express has been wooing for about a year. Through its Buyers Assurance program, which began in September 1986, American Express has been extending manufacturers' warranties on products purchased with American Express cards.

Traditionally, American Express has had wider acceptance among so-called travel and entertainment locations, such as restaurants and hotels, than among retailers. In contrast, the bank cards have had greater penetration among retailers.

"The bank cards are perceived as better for retail purchases," Mr. Cooperman concedes. But he says that American Express has plans to boost acceptance by retailers in connection with the promotion of its Optima card.

Optima is a new credit card that American Express began marketing earlier this year. The traditional American Express charge card does not extend revolving credit to cardholders, who generally must pay off their balances by the end of each billing cycle.

Industry observers are surprised that consumers rank American Express tops in the "least expensive" category. The annual fees for American Express cards are generally higher than those for bank cards.

The American Express green card costs $45 a year, the gold card $65, and the platinum card $250. The annual fees for standard bank cards generally range from $12 to $20. The annual fees for premium bank cards, aimed at upscale customers, range from $35 to $50.

Since American Express charges do not entail interest payments, consumers responding to the question of expense may have been taking into consideration the financing costs they pay on bank cards, industry observers say.

Consumers may also have been influenced by promotion of the new American Express Optima card. Available only to existing American Express cardholders, Optima costs $15 a year and carries an initial interest rate of 13.5%. Bank credit cards generally charge interest rates of 17% to nearly 20%.

"The message from American Express to us is that Optima is much less expensive," says Helene Duffy of the New York consulting firm Duffy & Duffy.

Consumers also rank American Express the best for travel and for restaurants and entertainment. This is no surprise to industry experts, since American Express has long been strong in those areas.

Visa Goes After Travelers

But since October 1985, Visa has been promoting its card for travel and entertainment through an ad campaign that shows the Visa card being accepted at restaurants and other travel spots that do not honor American Express.

While Visa concedes that American Express is the premier travel and entertainment card for business purposes, it says in-house research shows that consumers view Visa as the best card for personal travel and entertainment.

Research at American Express shows a minimal difference in consumer attitudes toward travel and entertainment for business or pleasure, according to Mr. Cooperman.

MasterCard says its research shows that consumers view MasterCard on a par with Visa and ahead of American Express for business meals, and only slightly behind the other two cards for business travel.

EXECUTIVE TIPS Suggestions for how to make *American Banker's* survey data work for you

How to . . . Win at the Credit Card Game

- ☐ Younger people are less likely to pay off the full balance each month than older folks . . .
  - • so they are your best source of income.
- ☐ Nonwhites are less likely to pay off the full balance each month . . .
  - • so recognize their potential as customers.
- ☐ Large numbers of people are confused about which credit card may be the least expensive or offer the most options . . .
  - • so if you have the best fees or most options, flaunt it
  - • if you don't have the best fees or options, go for a sense of belonging with affinity cards and other attention-grabbers while reconsidering your pricing strategy
  - • create a strong image for your cards.
- ☐ Most people use an average of three types of cards — affluent people use four . . .
  - • so offer incentives for people to consolidate to one card with a large credit limit.
- ☐ Only 51% of individuals earning under $20,000 a year have credit cards, compared with 97% of those earning over $75,000 a year . . .
  - • so offer lower earners cards with credit limits as big as the amount of money they are willing to leave in interest-bearing deposit accounts.

MasterCard's respondents include people who do not have credit cards and those who have only one of the three cards. Market researchers say that consumers are inclined to believe that whichever credit card they hold is the best for any purpose.

Worldwide, there are 152 million Visa cards, 135 million MasterCards, and 25 million American Express cards.

Credit Limit Believed High

That American Express outranks the bank cards in the category "high credit limits" illustrates the company's marketing skills, says Donald J. Auriemma, a Garden City, N.Y., consultant.

Even though America Express cards do not have a preset credit limit like bank cards, the company has convinced people that the amount they can spend is high, he says.

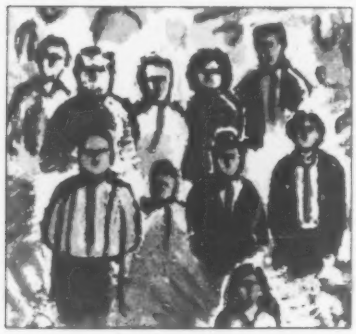
Consumers register significant uncertainty about using their credit cards for automated teller machine services, even though the card companies have been battling one another to establish the biggest automated teller machine network, and Visa began a print advertising campaign in June taking potshots at the size of the American Express network.

In the category "access to ATMs," 39% of those surveyed say they are unsure which company rates highest, 29% vote for Visa, 18% for American Express, and 13% for MasterCard.

American Express has 24,000 teller machines worldwide, including about 9,000 in Japan that are open only to Japanese cardholders. Visa has 20,000 machines worldwide, and MasterCard has 9,400. □

Michael Weinstein is American Banker's New England bureau chief.

Branches and Beyond



Eight out of ten people visit branches as much as ever or more than in the past ♦ Half of those who go less often have substituted automated teller machines for visits to branch employees ♦ Americans are curious about bank machines they can use for a wide variety of purposes other than deposits and withdrawals ♦ Consumers would rather do their banking with people than machines ♦ Most people vote against the idea of debit cards.

OUT OF THE OFFICE BUT NOT OUT OF TOUCH

Keep in touch with the latest banking news by phone. . . on the road. . . on vacation. . . or just on the go!

Use the **American Banker Edition of DowPhone®** to check the day's banking news and follow your stocks with real-time quotes.

For a limited time, there is no annual service charge for Banking Week Subscribers. So, you save $12.50.

Take the **American Banker Edition of DowPhone®** on your next trip. **Call 1-800-345-NEWS** for your personal ID number and instructional passbook today.

Appeal of Branch Banking Is Still Strong

Even with direct deposit and ATMs available, the public likes brick and mortar

BY LAURA GROSS

The old-fashioned bank branch is far from dead.

The advent of new technologies such as automated teller machines and direct deposit of payroll has not yet caused most consumers to stop banking as they traditionally have — with human beings in branches — according to data from the *American Banker*'s latest consumer opinion survey.

Eight out of ten Americans say they visit branches just as much as or more than they did two years ago. Another 18% say they use branches less frequently.

About half the people who go to branches less frequently than in the past say they have substituted automated teller machines for doing business with bank personnel. That is about 9% of the survey sample. About a third of those who go less frequently say they now use direct deposit of payroll.

Asked how frequently they visit a branch each month to conduct a transaction with a teller or other branch employee, some 10% of the public say they make no visits. Another third say once or twice a month, about a third say three to five times, 10% say six to nine times, and 7% say ten or more times.

The data indicate that it may be some time before the heavy investment many banks and thrifts have made in new technologies pays off in substantially reduced use of expensive brick and mortar for routine transactions.

Some industry leaders thought that, by now, consumers would rely more heavily on ATMs and direct deposit for the bulk of their routine transactions. Today, they concede that they overestimated the extent to which people would be willing to change their habits. Even Citibank officials, whose dream once was to establish a national branchless distribution system, have discovered that some degree of physical presence is necessary for consumer comfort.

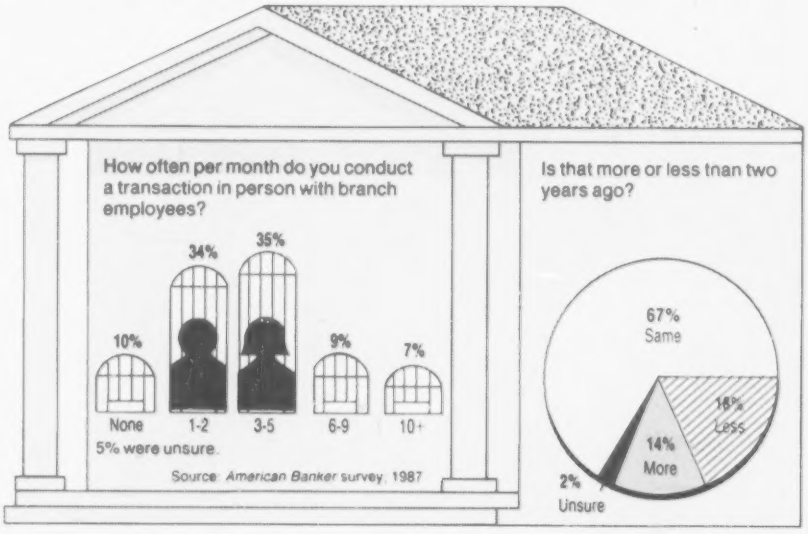
"The single biggest factor I didn't anticipate in those early days is that from time to time we would have additional new payment-system mechanisms that would not have an impact on existing services," says Dale Reistad, president and chief executive officer of the Electronic Funds Transfer Association. He was one of the earliest advocates of conversion to an efficient, electronic banking environment.

"Although the ATM business has been essentially successful and introduced a new level of convenience to customers, it has not replaced a substantial proportion of the previous system — branches and check cashing in supermarkets," he says.

"It is an additional layer, a new convenience that only a certain percentage of the public has adopted so far," Mr. Reistad says.

The reason, he points out, is simple: People like branches.

Consumers Still Like Branches



Alternative Delivery Scorecard

Consumers who visit branches less frequently were read a list and asked what they have substituted for banking in person with a teller or other branch personnel:

Base: 198 who visit branches less frequently now than a few years ago; multiple responses permitted.

Source: *American Banker* survey, 1987

"For over a decade, we've been trying to deny the fact that consumers are relatively comfortable with the existing financial institution branch distribution system. They like it. It works. They have no reason to change," says Edward Furash, president of Furash & Co., a management consulting firm in Washington, D.C.

"The impetus to change the branch system is economic on the part of banks. Eventually, that will translate into cost savings for consumers, but it's not the consumer that's hollering for the change," says William O. Adcock Jr., chairman of Synergistics Research Corp. in Atlanta.

There is controversy among bankers and analysts over the degree of success electronic banking has achieved so far.

"A lot of people say if you haven't converted everything to electronics, you haven't achieved anything, but I think 5% and 10% changes are dynamite on the economics of large branch systems, especially for the short term," Mr. Adcock says.

"Without automation, the cost of branching would go through the roof," agrees C.C. Hope, director of the Federal Deposit Insurance Corp.

"Yes, people are still using branches heavily," he says. "But look at how much heavier [usage] would be if it weren't for the modest but important segment using automation."

At most banks that have offered automated tellers for some time, a third of the customers actively use the machines, and some banks report usage as high as 50% where systems have been actively promoted.

Some bankers rail against the idea that there is a 33% wall, representing what some analysts think is the upper limit to public acceptance of ATMs.

33% Looks Good to Some

Other bankers are not fazed by the possibility that there may be a 33% wall. John A. Russell of Banc One Corp. in Columbus, Ohio, says he thinks it is "just great" that 35% of the base use ATMs every month.

"If you can get 33% of the public to do something, I think that's fantastic and phenomenal. I don't know of anything else you can get 33% of the public to do," says Mr. Russell, who is also president of the Bank Marketing Association.

He says he is encouraged by the *American Banker* survey finding that 9% of the public say they visit branches less because they use ATMs.

"For a relatively mature product, 9% is pretty good," Mr. Russell says. ATMs were first introduced about 17 years ago. In 1973, according to Linda Fenner Zimmer, payment systems correspondent, there were 1,936 ATMs installed. By the end of last year, there were 69,161.

Other observers, who expect more ATM usage in the future, say the *American Banker* survey shows that consumer behavior evolves slowly.

"Clearly, we are in a much longer curve of product adoption than people thought," says Mr. Furash.

"That adoption rate will speed up as consumers become more oriented to time convenience rather than place convenience. It will speed up as ATMs, point-of-sale, and other technologies become more pervasive. It will speed up to the degree that it is better promoted and priced to induce use, and to the extent that younger people who are used to using machines move into the mainstream," he says.

"But this shows us what we've known for a long time: Financial institutions face a very expensive mixed delivery system for at least another 10 to 15 years, and no one delivery technique will dominate over that time," Mr. Furash says.

VOICE OF THE CONSUMER

> "THEY CHARGE PER VISIT AFTER TWO OR THREE PER MONTH."
>
> *— Upper-middle-income black student from suburban Massachusetts*

Baby-Boomers Accept Machines

In the *American Banker* survey, members of the postwar baby-boom generation, particularly those 25 to 39 years old, report substituting ATMs for branch banking with greater frequency than any other subgroup.

In general, younger people have changed their behavior regarding branches more than older people, reporting that they use branch personnel both more and less frequently than in the past. Industry observers say that is because their situation in life is constantly changing. On the other hand, older, more settled people over the age of 55 report the same behavior as about two years ago.

The fact that younger generations seem to be less locked into banking with people in branches means, Mr. Reistad says, that "a couple of decades from now, you'll find the previous system may start slipping."

Alfred S. Dominick, a senior vice president of Shawmut Bank, Boston, agrees, but not for the same reason.

"In the next decade," he says, "you'll find that customers will rather do it themselves than contend with the staff we might likely be able to put in our branches.

"On the clerical level, banks are in competition with McDonald's for the labor supply, which is evaporating and, at McDonald's, employees can get $6 an hour and a free lunch," he says.

It is no secret that consumers dislike slow or ill-mannered tellers. The question challenging Mr. Dominick's theory is whether this distaste will ever outweigh their aversion to making deposits at automated teller machines.

ATMs Not Trusted for Deposits

In the *American Banker* survey, the need to make more deposits was the No. 1 reason people cited for going to the

Why People Use Branches More Often

Make more deposits	29%
Have more needs	25%
Make more withdrawals	12%
Business purposes	9%
Get paid more often	9%
Locational convenience	7%
Take out/pay loans	3%
Pay bills	1%
Correct errors	1%
Other	1%
Unsure	7%

Base: 153 saying they visit branches more often now than a few years ago; multiple responses permitted to open-ended question.

Source: *American Banker* survey, 1987

bank more today than two years ago to conduct a transaction with a teller or other branch employee. Fourteen percent of the public say they go to the branch more today than in the past, and 29% of those people mention more deposits as the reason. Only 12% of them mention more withdrawals.

"There are even a lot of bankers who don't trust ATMs for the purpose of making deposits," says Alex W. "Pete" Hart, executive vice president of First Interstate Bancorp, Los Angeles.

"People don't like to drop their money in a dark hole. They'd rather put it in a person's hand and get a receipt," explains John O. Smith, senior vice president of consumer marketing at First Interstate.

It is hard, these bankers say, to get people to change their behavior without providing an incentive.

"You can't modify consumer behavior by just simply making another service available," says Mr. Hart.

"The telephone company does a lot to see that you don't call grandma in the middle of a Monday by imposing some very punitive pricing, but we don't do that as an industry," he says.

Pitfalls of Pricing

Mr. Hart, like other bankers, acknowledges that punitive pricing is dangerous. As an alternative, Mr. Reistad recommends providing customers with incentives to use automated teller machines.

But, he adds, giving incentives could have unfortunate repercussions in the current low-usage environment.

"Many ATM services are just nudging profitability at the 33% level, and if they got above 50% I think they'd be in the profitability range, particularly if they could put a pricing schedule into effect that would stick," Mr. Reistad says.

The problem, he says, is that introducing a pricing schedule might act as a disincentive. "It's obvious that if there is a fee for an ATM as opposed to no fee for a teller, a lot of customers will be inclined to go to the teller."

So, Mr. Hart says, "you don't push people in a dramatic fashion, but over time you supplant more and more routine transactions with ATMs, and over time you do more and more selling through the branches."

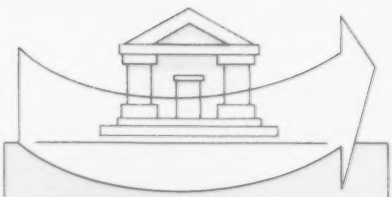
That is the chief reason, other bankers say, behind their push to be permitted to offer new services such as selling mutual funds, real estate, and insurance.

"The more people you get out of the lobby, the more expensive it will be to provide service to people coming in. You'll still have the same investment in the parking lot, cutting the grass, growing the flowers, running the lights, so you need to offer other financially related services," says Mr. Russell of Banc One.

Many bankers have targeted the affluent as the consumer group most likely to need multiple services through branches. Already, according to the *American Banker* survey, people with household earnings above $75,000 are twice as likely as the general public to go to the branch 10 or more times a month.

People with earnings under $20,000 are half as likely as the general public to go 10 times or more. Also, of the 10% of the public who say they go zero times a month, twice as many earn under $10,000 a year as the general public.

That is the good news for bankers who are revamping their lobbies and training their personnel to sell multiple financial services to the affluent. The bad news is that the affluent, educated, and younger segments of the public tend to use



Why People Use Branches Less Often

Use automated tellers	30%
Have direct deposit	14%
Fewer financial needs	14%
Change in pay schedule/fewer deposits	13%
Change in location/hours	11%
Don't have time	5%
Fewer withdrawals	5%
Use mail	4%
Use phone	4%
Other	2%
Unsure	8%

Base: 198 saying they visit branches less often now than a few years ago; multiple responses permitted to open-ended question.

Source: *American Banker* survey, 1987

VOICE OF THE CONSUMER

"IT TAKE SO LONG TO CLEAR CHECKS. IF I DEPOSIT TODAY, IT TAKES FIVE DAYS TO CLEAR, SO I HAVE TO DEPOSIT DAILY TO HAVE CHECKS CLEARED."

— High-income female entrepreneur from suburban New York

EXECUTIVE TIPS Suggestions for how to make *American Banker's* survey data work for you

How to . . . Handle Issues Related to Branch Usage

☐ People who visit branches 10 or more times a month tend to be dissatisfied with their main financial company . . .
- so emphasize that direct deposit and ATM usage will benefit the customer, not the institution
- and find out if the problem is that dissatisfied people visit branches more or that visiting the branch so much causes them to become dissatisfied.

☐ The top reason for increased branch usage is deposit-making . . .
- so encourage people to make deposits through ATMs, the mail, or direct deposit
- give them ironclad guarantees to cover possible problems
- consider stationing floor officers to collect deposits from those in line and express deposit boxes to speed line-waits for other customers
- put an ATM on wheels for in-lobby demonstrations
- arrange for tellers by appointment for key clients.

☐ Consumers who are less satisfied with their main financial company go to branches less than those who are more satisfied . . .
- so put suggestion boxes around ATMs as well as lobby areas to show you care about consumer opinions
- do something about the comments and suggestions left in the boxes; respond personally in writing or by calling, because the way the complaint is handled is more important than the original problem that caused it
- let employees know about problems and solutions through bulletin boards or newsletters
- don't insulate senior management from day-to-day problems or complaints
- send letters to customers asking for their suggestions
- help people who file complaints in lobby boxes to find new ways they can do their business without visiting branches.

☐ People who say they have more financial needs tend to go to the branch more often . . .
- so find ways to help them handle business conveniently outside the branch
- and find ways to make better use of branches for loan production, leasing, selling travel services, and offering other products they will buy.

☐ Consumers whose principal institution is a credit union tend to go less frequently to branch locations and tend to use direct deposit more than other individuals . . .
- so work with employers to market direct deposit as another benefit they and you can give employees.

branches less for routine transactions now than in the past. That means bankers will have a harder time getting their attention to sell them new products and services.

In the *American Banker* survey, people who use branch personnel less than in the past have demographic profiles similar to that of the typical ATM user. They tend to be younger, more educated, more affluent, and suburban.

Within the group that goes to branches less often are twice as many people who earn above $50,000 a year as under $20,000. Double the number of high-income consumers say they visit branches less frequently than say they visit them more often. That compares with the general public, 14% of whom go to the branch more often and 18% of whom go less.

Also, 16% of consumers 25 to 44 living in dual-income households where the earnings exceed $40,000 annually say they go to the branch zero times a month, compared with 10% of the public. A quarter of them go less frequently than in the past, compared with a tenth who go more frequently.

Compared with consumers who have no high school diploma, more people with graduate degrees say they go to the branch less often now than they did two years ago.

Twice as many suburbanites as small-town dwellers say they visit their branches less often.

Direct Deposit at Credit Unions

As a group, credit union members report they have changed branch usage more than bank or thrift customers. Twenty-five percent of credit union members say they go to the branch less frequently, compared with 15% who say they go more often. That compares with 18% of bank customers who go less frequently and 12% who go more.

One reason is that credit unions tend to have much younger customer bases than banks or thrifts: three-fifths of their customers are under the age of 39, compared with two-fifths each for banks and thrifts.

Among the small number of people calling credit unions their main financial institution who go to branches less frequently now than in the past, direct deposit of payroll is cited more than by bank or thrift customers. In the survey, more credit union members than bank or thrift customers report that the principal wage earner is paid by direct deposit.

"Banks have got to recognize that working people in this country like the convenience of direct deposit of payroll. They have got to promote direct deposit through automated clearing houses, and they have to promote in-plant banking," says Justin L. Moran, president of his own management consulting firm in Ann Arbor, Mich.

Mr. Russell of Banc One agrees about in-plant banking. He says that the distribution of ATMs is altogether wrong, and bankers cannot expect to reduce usage of branches for routine transactions until they put ATMs in the right places.

"The next big impact on the number of people in the lobby will come when we put ATMs in apartment complexes, big restaurants, grocery stores — where people are, not around branches," Mr. Russell says.

After all, he asks, where does the post office put the mailboxes? ☐

A Quarter of Consumers Say Yes to Debit Cards

The point-of-sale industry is encouraged by this degree of positive response

BY JEFFREY KUTLER

Consumers are sufficiently interested in debit cards to reassure the builders of point-of-sale payment systems that they are on the right track.

Of those polled in the *American Banker*'s latest national consumer survey, 26% say they would use debit cards to pay electronically for retail goods and services where they make the purchases.

A majority of 64% still resist the concept, and the remaining 10% do not know or are undecided about it.

The electronic funds transfer industry perceives the 26% favorable response to debit cards as a big, encouraging number.

"I think it's spectacular," says David O'Connor, president of Internet Inc., an automated teller machine network in and around Washington, D.C. Internet has just begun expanding into point-of-sale debit payments.

"Back in the early days of ATMs, when we were struggling to get those systems off the ground, the receptive group was far smaller than 26%, and we know how far ATMs have come," Mr. O'Connor says.

The 140 million ATM cards that financial institutions have issued to their retail depositors in the United States are now being enhanced with point-of-sale debit features.

Resistance Begins to Break Down

Mr. O'Connor and other network executives report that POS remains a tough sell, both to merchants and to consumers. They say research findings such as the *American Banker* survey reflect the beginning of a breakdown in the resistance.

The most successful direct-debit programs have been the ones marketed by retailers such as Lucky Stores Inc. and Arco Petroleum Products Co., both in California. Together they have spent a reported $15 million on media advertising to persuade consumers to use their electronic payment systems.

"Lucky's experience led a lot of us to believe that it would take a big, expensive marketing push to sell debit cards, but the debit card logic is not the same as credit cards," says Henry Mundt, senior vice president of marketing for Cirrus System Inc., a national ATM interchange network based in Downers Grove, Ill.

"Once we get consumers thinking about the convenience and cost advantages of debit cards, I think we will raise that 26% substantially. And I find 26% an encouraging place to be."

Bankers have been contemplating direct-debit payment systems for 20 years, but only now are the systems beginning to win a rudimentary acceptance from consumers in some parts of the country.

With one-fourth of the nationwide consumer sample reacting favorably to a debit card service, the industry's timing may finally be right.

So may be the timing of Entree, the national debit card program that MasterCard and Visa have spent the past year preparing for a launch this fall. They will add the Entree logo to existing ATM cards, denoting that they can be used to make immediate payments to participating merchants.

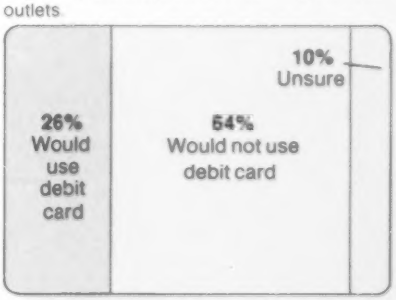
Two major petroleum retailers, Exxon Co. U.S.A. and Mobil Oil Corp., may also be catching the beginning of a wave of public approval. Both are taking ATM cards for payment in thousands of service stations, and both give millions of their own customers the choice of declaring either "debit" or "credit" when they present a card at the point of purchase.

The *American Banker* questionnaire did not probe consumer attitudes toward regional versus national payment networks, banks versus nonbank providers, or toward payment terminals of varying degrees of complexity. All are issues of lively debate at banking industry conferences.

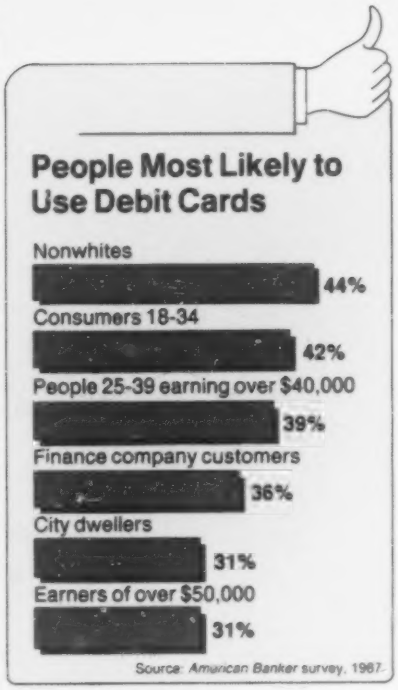
The survey question on debit cards did

A Quarter of Public Likes Debit Cards

One in four consumers say they would use debit cards to make immediate, electronic payments at grocery stores, gas stations, and other retail outlets.



Source: *American Banker* survey, 1987



not even include the word "debit." It simply described plastic cards "different from credit cards" that could be used instead of cash or checks "at grocery stores, gas stations, and other retail outlets," with the purchase amount "immediately transferred from the customer's checking account to the store's account."

It is to this description that 26% respond affirmatively and 64% negatively.

Surprising Acceptance Pattern

As with many of the new financial services, debit cards appeal more to the younger, higher-income, urban consumers than to elderly people and other market segments usually disparaged as "downscale."

However, debit cards show surprising strength in at least two market segments that bankers do not consider their primary focus.

Among nonwhites, 44% say they would use debit cards, compared with 24% of whites and 26% of the total sample. Nonwhites are more disposed to favor debit cards than any other demographic group, whether categorized by age, sex, income, education, or geographic area.

The nonwhite percentage well exceeds the 21% positive response among low-income people — those earning less than $20,000 a year. This suggests that middle-income and upper-income blacks, Hispanics, and Asians are those most interested in debit cards.

Nonwhites and whites express the same reasons for liking debit cards: ease and convenience (55% of nonwhites, 52% of whites), and the fact that they don't have to carry cash or checks (43% of nonwhites, 46% of whites).

Low-income people are more likely than others to say they don't like plastic or fear that a debit card will make it too easy to spend money.

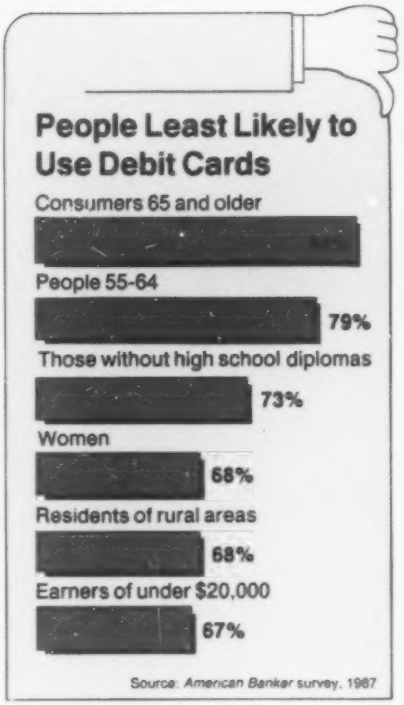
Customers of finance companies alsoare responsive to debit cards. Finance companies do much of their business with people who are unable to get bank loans, and who may be displeased with their banking relationships. The number of finance company clients who say they would use debit cards, 36%, is 10 percentage points higher than the average for all consumers.

Disgruntlement with banks may be an explanation. Receptivity to debit cards is high among people who say they are dissatisfied with their primary financial institution, but this segment of the *American Banker* sample is too small to support a statistically valid conclusion.

Debit card acceptance correlates with expected patterns in the following demographic categories:

• **Age.** In the 18-to-34 age group, 42% say they would use debit cards. This group is closest to the 44% nonwhite response. Acceptance falls to 28% of those 35 to 54, and to only 9% of those over 55.

• **Income.** Prospective debit card users increase from 21% of the under-$20,000 group, to 28% of those earning $20,000 to $50,000, and to 31% of those earning over $50,000. Among young professionals, "yuppies" 25 to 39 earning $40,000 or more, 39% respond positively.



• **Geography.** More city dwellers, 31%, say they would use debit cards, compared with 22% of small-town and rural residents. Suburbanites are closer to their city neighbors at 28%.

Westerners are more positively disposed toward debit cards than other Americans; 32% of people in the West say they would use the cards, compared with 26% in the South, 25% in the north central states, and 25% in the Northeast.

Men, at 30%, say yes to debit cards more than women, at 23%.

Just as youth correlates positively with debit card acceptance, older age groups are the most negative: 84% of those above 65 and 79% of those 55 to 64 say no to debit cards.

Other high rates of rejection are found among those who did not complete high school, 73%; women, 68%; rural residents, 68%; and those who earn less than $20,000, 67%.

Of the people who respond positively,

VOICE OF THE CONSUMER

"THE COUNTRY IS BEING TAKEN OVER BY PLASTIC, AND I DON'T WANT TO BE A PART OF IT."

— Middle-aged, middle-income woman from a Texas city

VOICE OF THE CONSUMER

"I DON'T LIKE TO PUT MY BANK ACCOUNT IN THE HANDS OF SOME STORE CASHIER THAT I DON'T KNOW."

— Retired high-income woman from a Georgia city

53% say they like debit cards for reasons of convenience, ease of use, or less "hassle"; 45% like the fact that they do not have to carry cash or checks. The open-ended question, "What do you like about such a card?" elicited no other answers with significant frequency.

People 18 to 34 are more likely than others to appreciate convenience, with 60% mentioning it as an attraction of debit cards. The overlapping 25-to-39 age group is most interested in the less-cash-fewer-checks feature, at 52%.

Those who say they would not use debit cards give a wider variety of reasons for not liking them. Loss of float — the fact that debit card payments are immediately deducted from a consumer's transaction balance — was not specifically mentioned as a drawback, although it may have been implicit in other responses.

Among the negative responses, 22% say they like cash and checks better; 16% fear losing control of their spending; 13% say debit cards are unsafe or can't be trusted; 12% mention record-keeping problems; 12% say they simply don't need the card; and 12% don't like plastic.

These are the attitudes financial institutions and retailers must overcome if debit cards are to approach the almost universal usage and acceptance of checks or the widespread penetration of credit cards.

According to Federal Reserve Board data compiled in 1984, 86% of all U.S. families have checking accounts and 69% own credit cards. Only for families with less than $10,000 annual income do these percentages fall sharply below the norm.

The Federal Reserve consumer data, updated in 1986 by the University of Michigan survey research center in Ann Arbor, showed that 46% of families had ATM cards and 69% of these — or 32% of the total — had used them to withdraw cash an average of five times per month.

Those customers are the immediate targets for point-of-sale debit marketers. The *American Banker* survey's 26% favorable response to debit cards is comparable to the figure cited by the Fed.

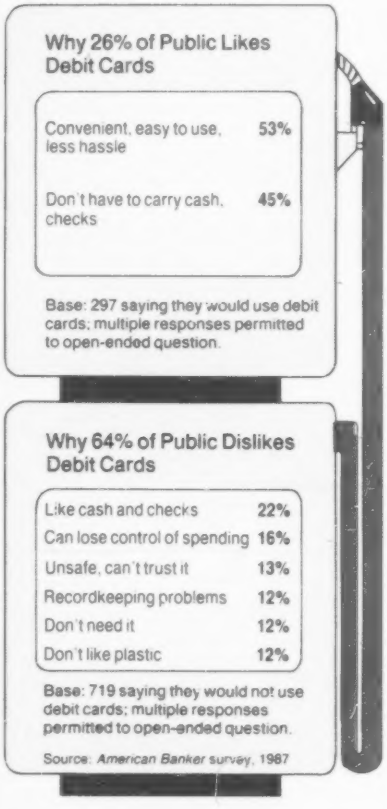
An Untapped Market for POS

Stan Paur, president of Financial Interchange Inc., Houston, says the *American Banker*'s 26% finding may be a little low. His corporation operates Pulse, the largest of the regional ATM and point-of-sale networks.

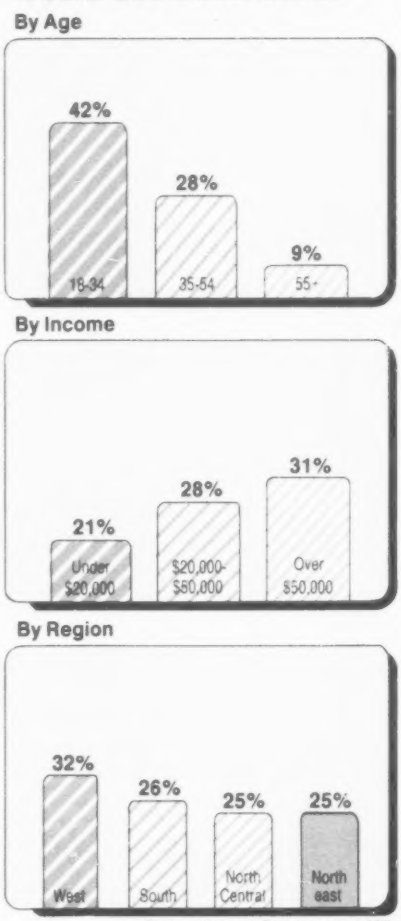
"The Pulse network is handling 5,000 POS transactions a day, out of 140,000 total [mostly ATM] transactions, and that is with no POS advertising," Mr. Paur says. "This tells me that we as an industry do not yet fully understand the consumer and his grasp of POS, and that there is a tremendous potential waiting to be tapped."

Debit Cards: Pros and Cons

Q: Some financial institutions offer consumers plastic cards that are different from credit cards. These cards can be used instead of cash or checks to make purchases at grocery stores, gas stations, and other retail outlets. People present these cards and the exact amount of money to cover a purchase is immediately transferred from the customer's checking account to the store's account. Would you use such a card?


Why 26% of Public Likes Debit Cards
Convenient, easy to use, less hassle 53%
Don't have to carry cash, checks 45%
Base: 297 saying they would use debit cards; multiple responses permitted to open-ended question.
Why 64% of Public Dislikes Debit Cards
Like cash and checks 22%
Can lose control of spending 16%
Unsafe, can't trust it 13%
Recordkeeping problems 12%
Don't need it 12%
Don't like plastic 12%
Base: 719 saying they would not use debit cards; multiple responses permitted to open-ended question.
Source: American Banker survey, 1987

How Many Consumers Would Use Debit Cards



VOICE OF THE CONSUMER

"WITH CREDIT CARDS YOU HAVE A WHOLE MONTH OF FREE MONEY; WITH DEBIT CARDS IT'S TAKEN OUT IMMEDIATELY."

— Young upper-middle-income man from suburban Tennessee

Mr. Paur says he is not surprised that consumers polled for the *American Banker* do not cite loss of float as a reason to dislike debit cards. "If people were really concerned about loss of float, they wouldn't be using ATMs as much as they do," he says.

"It is a fallacy to believe that debit cards will entirely replace checks," Mr. Mundt of the Cirrus System says. "We know that 12% to 15% of all checks are written at the point of sale, and we can't expect to move all of those to debit cards.

"But we also know that the older population, the people most sold on checks, will be moving on, and we'll see more people learning about and accepting debit cards, and probably taking advantage of discounts and pricing incentives to use them," Mr. Mundt says.

"We don't have a lot of research of our own," says F. David Brangaccio, senior vice president of MasterCard International, New York, who is overseeing his organization's role in the Entree debit card program. "But we are encouraged by it [the *American Banker* statistic] and by our feeling that, given the growth in ATM usage and consumers' experience with smaller-scale POS pilots, consumers are ready to start using debit cards."

Gerald Hawke, manager of the Entree project for Visa U.S.A., San Mateo, Calif., says "it's great" that 26% of consumers say they would use debit cards, because most of them have no experience.

In Visa's own surveys of consumers who use the Interlink debit card system in California, Mr. Hawke says, "once people learn how it works and how convenient it is, the 26% figure begins to look small."

Payment Systems Inc., a Tampa, Fla., research firm, says debit card services have been accepted by less than 10% of households nationwide, but projects 60% market penetration by the year 2000. □

Jeffrey Kutler is an American Banker reporter in New York.

EXECUTIVE TIPS Suggestions for how to make *American Banker's* survey data work for you

How to . . . Get the Public to Use Debit Cards

□ People seem to distrust debit cards . . .
- so allow customers to change their mind about transactions as a way to build up trust
- make deals with retailers to give people discounts for using debit cards
- offer the cards for free to anyone who uses them more than three times a month
- split the float with people who use the cards by offering earnings credits based on usage of debit card accounts.

□ Younger people seem more receptive to debit cards and older consumers seem more opposed to them . . .
- so market to consumers age 55 and older by emphasizing safety and convenience
- and give cards to young adults as soon as possible so they will be comfortable using them as they age.

□ 26% of the public say they would use a debit card when it is positioned as a substitute for checks or cash . . .
- so position it that way and not as a substitute for a credit card
- and position the debit card as free, against checks that cost money.

Can Machines Win the Hearts of Customers?

Half the people surveyed show an interest in doing their banking business with a terminal

BY LAURA GROSS

A large segment of the public is intrigued by the idea of using bank machines for more than deposits and withdrawals. Almost half the consumers surveyed by the *American Banker* are receptive to customer-activated terminals for a wide range of new uses — from getting summaries of account activity to perusing calendars of local community events.

Three out of ten consumers say they definitely or probably would use "a type of self-service machine customers can use by themselves to open accounts, order checks, and get information on their accounts and other financial services."

Another two out of ten say they might try it, while about five out of ten say they would not.

Three-fourths of those who express interest in self-service machines like the idea of using them to order checks, get information on other financial services, and request stop payments on checks. Other popular services are getting money orders and stock information.

The survey results add fire to the debate over which services should be included on these new terminals. One side favors transaction services such as getting account summaries; the other favors information services such as product descriptions and projections of loan payments. In the middle are those who want to see existing automated tellers upgraded to include new services.

Despite the willingness of half the public to try something new, on a separate question three out of four Americans say they would prefer to handle such transactions with a person. Among the others, 11% say they prefer a machine, 10% say it depends on the transaction, and 4% have no preference.

Industry observers are not surprised that a large percentage of the public would be willing to try a self-service information machine.

"Why not? It's free," says Irving F. Leveson, senior vice president and director of research at the Hudson Strategy Group, a subsidiary of the Marsh & McLennan Cos.

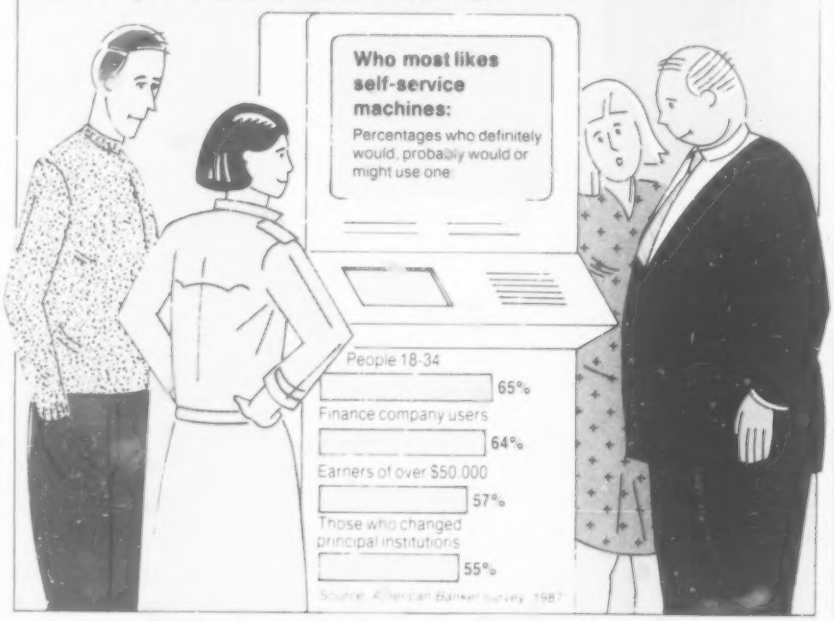
"But what if they had to put a dollar in it? It's one thing for half the public to say they'd try them and another to say banks could save money or gain a competitive advantage by installing them," he says.

"Many things that can be done through those terminals are things for which the customer is not anxious to pay and for which we are not interested in incurring additional expense," says Alex W. "Pete" Hart, executive vice president of First Interstate Bancorp, Los Angeles.

According to the *American Banker*

Public Is Curious About Customer-Activated Terminals

Given a choice, more than seven out of ten people would prefer to interact with humans rather than machines for transactions such as getting account statements, ordering checks, and investigating information on financial services. But 47% say they definitely would, probably would, or might use such a customer-activated terminal.



survey, the service people say they would most like from a customer-activated terminal, or CAT, is getting a computer printout of account activity. More than 90% choose that alternative from a list. No other service comes close.

Banks Finger the Price Tag

There is a substantial cost involved in connecting one of these terminals with the bank's on-line computer system in order to provide transaction services. Also, many bankers are reluctant to incur an expense for which the bottom-line benefits are vague.

"When someone wants to order checks, there's not much cost to us. What's the benefit to us to get involved in something he's always done himself? We aren't charging him a nickel, and we get the additional risk, cost, and time," Mr. Hart says.

At Shawmut Bank in Boston, where there are two Diebold interactive video terminals, ordering checks and checkbooks is not a frequent activity, according to Alfred S. Dominick, senior vice president.

"We get a couple of hundred people a week using the machines, mostly for stock quotes. Customers like to be able to use these to get dynamic information, things that change all the time," he says.

That could explain why the survey option "find out about local community activities" ranked above "apply for a loan" and "open accounts" as services people would like to get from these machines.

However, among the last on the list were "get the weather report," "buy lottery tickets," and "see the latest news headlines." These are obviously services that are amply provided elsewhere.

Bankers say that including unusual services on customer-activated machines increases the likelihood that people will use them over and over.

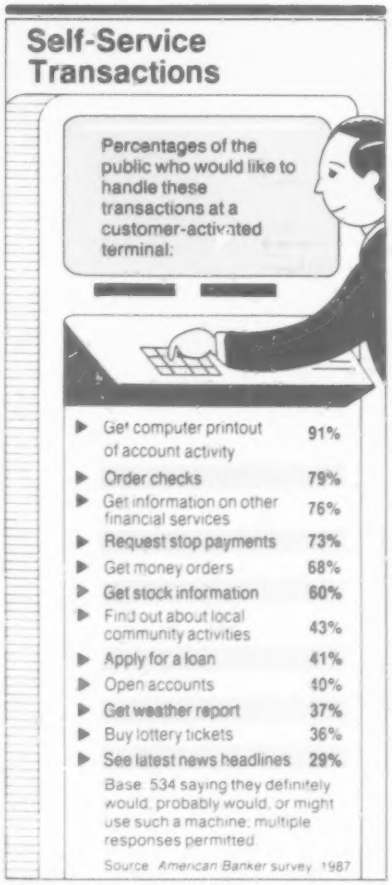
John A. Russell, vice president and director of marketing for Banc One Corp., Columbus, Ohio, suggests that CATs could be used to dispense payments for the subway or other local transportation.

Edward Furash, president of Furash & Co., a management consulting firm in Washington, D.C., suggests putting local, even national, sports scores on them.

Their suggestions are right on the mark, according to James E. Leierzaps, vice president of electronic products for Diebold Inc., Canton, Ohio.

"We have some of these in supermarkets, and the one thing that keeps people coming back over and over again is the recipes. It's a more attractive feature than coupons," he says.

"Marketing or sales information about services is the type of thing someone comes in and looks at once, as opposed to transaction-oriented things people come back over and over again to see," Mr. Leierzaps argues.


Self-Service Transactions
Percentages of the public who would like to handle these transactions at a customer-activated terminal:
Get computer printout of account activity 91%
Order checks 79%
Get information on other financial services 76%
Request stop payments 73%
Get money orders 68%
Get stock information 60%
Find out about local community activities 43%
Apply for a loan 41%
Open accounts 40%
Get weather report 37%
Buy lottery tickets 36%
See latest news headlines 29%
Base: 534 saying they definitely would, probably would, or might use such a machine; multiple responses permitted.
Source: American Banker survey, 1987

Service Versus Selling

The issue of transactional utility versus marketing information is at the center of the controversy over evolution of the customer-activated terminal. Some bankers and suppliers say that giving consumers on-line transaction information is crucial to the success of these machines. Others claim that is not what the machines are for. They want CATs to be used for marketing new services and for educating employees and consumers.

"Providing account activity has low value to the bank and is handled well with current technologies. Unless the consumer is willing to pay for it, it's another overhead for the bank," says a proponent of the marketing side, Anthony N. Diina of National Video Service Inc., Buffalo.

Mr. Diina runs a shared customer-activated terminal network for financial institutions and retailers. His says people most like to use the machines for activities such as projecting how much they would have to pay per month to borrow certain amounts at different interest rates.

"Bankers can't figure out if this is branch automation or marketing," he says. "We see it as a marketing tool for market penetration, customer satisfaction, and service, not as an operations tool."

Charles S. Forbes does not take sides in the battle. The director of financial services industry marketing for Interactive Training Systems Inc., Bedford, Mass., says he thinks the chief draw of CATs is that they allow people to initiate the process of knowledge acquisition on their own. His company sells educational software for customer-activated terminals.

Younger People Are Money-Wise

This, he says, is particularly important for younger Americans, who are better educated and more in tune with money matters than their parents. They tend to shop around more for financial services, discuss money matters with each other, and compare prices and services much more than older generations.

It is young adults who are most attracted to using interactive machines, the *American Banker* survey finds. Triple the number of people 18 to 34 as over 55 say they would definitely, probably, or maybe use one.

Another group that is particularly interested includes young, upwardly mobile professionals 25 to 39 from households where earnings exceed $40,000 a year. About 71% of these time-conscious consumers say they would definitely, probably or maybe use self-service machines. Of those, 50% say definitely or probably.

The more well educated and affluent people are, the more likely they are to say they would be willing to try this new technology, the survey shows.

Guidance from Machines

"The machines let them feel smart," Mr. Furash says.

People want answers to questions

about refinancing their home, paying for their children's education, and deciding how much money they will need to retire, Mr. Forbes says.

Interactive machines allow people to project the answers to those questions, and some provide customers with a printout, which Mr. Forbes says is a popular feature.

"People love to glom onto a piece of paper, particularly if they are playing the 'how much would the loan payment be?' scenario or the 'value of the IRA in 2020' scenario or the 'how much do we need to save for Junior's college?' scenario," Mr. Forbes says.

"You would never dream of going up to a platform person and saying you need help figuring out how much money to save each month so that 10 years hence you can send your child to Harvard," he explains.

Along with other suppliers, he suggests that customer-activated terminals have utility for training and educating employees as well as customers.

"The banking industry still has two problems: a large product list and rates that change often. It is difficult for bank employees to remember all of that when dealing with consumers," says Mr. Leierzaps of Diebold.

Mr. Leierzaps says that a major obstacle to bank installation of CATs has been the cost. Diebold has developed an inexpensive offering system that allows financial institutions to begin testing units for an outlay of $3,250 and about $250 per unit, but there is still something missing, he says.

"One other element has to be completed here for success. Customers want information about their accounts, so software of the host computer has to provide statement information to the terminal," he says. "That will take time."

CATs Need Refinement

Some bankers would prefer to wait until all of the services people say they want from customer-activated terminals are available on revamped automated teller machines.

"Inventing another layer of machines is a more costly way to go," says Mr. Leveson of the Hudson Strategy Group.

"These are absolutely the wave of the future, but they will have to be combined machines, doing all these things as well as what ATMs do now," says Banc One's Mr. Russell.

"Customer-activated terminals are on the growth curve now where ATMs were in the early 1970s," Mr. Forbes says, which means, "somebody thinks he saw one once."

But, comments another banker, who requested that his name be withheld, "I doubt we would have gotten 47% to say maybe to ATMs at the start."

He says the *American Banker*'s 47% statistic shows that there is hope for financial services executives who will want to replace some of their expensive human labor with less costly machines in the future.

None of this means, however, that people will ever prefer machines to other people, Mr. Furash says.

"It is very easy to overlook the fact that we have been put on earth to relate to other people and we enjoy doing it," Mr. Furash says.

"It is narrow-minded to think that people want to abandon human interaction," he adds. "What they want is to abandon poor human interaction." □

EXECUTIVE TIPS Suggestions for how to make *American Banker's* survey data work for you

How to . . . Introduce Customer-Activated Terminals

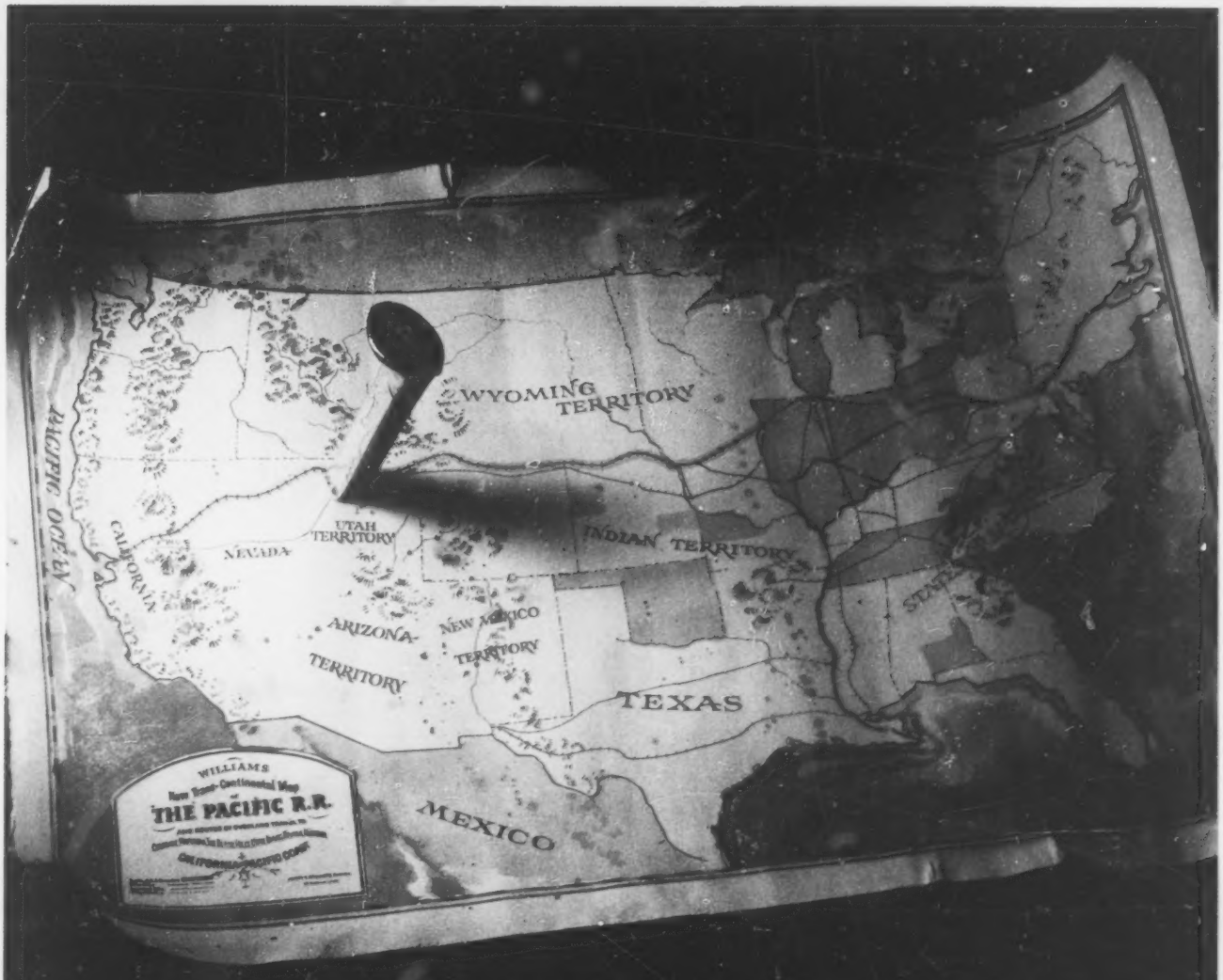
☐ Three-fourths of Americans prefer to conduct financial transactions with people, not machines, but there is some curiosity out there about CATs . . .
- so put these newfangled machines next to customer service representatives who have been trained to use them and can reassure jittery customers.

☐ Nine out of ten of the people who show interest in customer-activated terminals want on-the-spot printouts of account statements . . .
- so offer that service now through existing capabilities.

☐ Seven out of ten people who show interest in CATs like the idea of getting money orders from the machines . . .
- so sell money orders in the lobby.

☐ Young adults age 18 to 34 are the most interested in customer-activated terminals . . .
- so offer them special deals to use these machines
- enhance the deals if they do all of their banking electronically
- discover how to promote CATs to others by researching their attitudes about the experience.

☐ Suburbanites show above-average interest in customer-activated terminals . . .
- so put them in shopping malls.



WHAT DOES IT MEAN WHEN A CREDIT COMPANY SAYS THEY'RE NATIONWIDE?

TRW—AMERICA'S CREDIT PIONEERS

From the East Coast to the West... going nationwide is a triumph. Like the driving of the golden spike, signaling one nationwide link from coast to coast.

NATIONWIDE HIT

TRW and its affiliated bureaus were the first to go nationwide, supplying you with the depth of credit information you need.

And today, TRW is the only credit reporting company backed by the resources of our Information Systems Group, a group of companies dedicated to the discovery of new technologies to support your daily credit granting needs.

NATIONWIDE SEARCH

Now, we're adding nationwide search. A real nationwide search. Supported by quality and depth of file nationally. A depth and quality only TRW can provide.

COMMITMENT TO DEPTH AND QUALITY

Through a thorough, well planned process, we've created an in-depth nationwide file that now has credit information on 138 million credit active Americans, from virtually every major population area. And because of TRW's ongoing national commitment to quality, this data base is being continually enlarged and updated.

TRW—THE NATION'S LEADER IN CREDIT INFORMATION

So if a credit information company claims it's nationwide, make sure it has a data base with the quality, accuracy, currency, and depth of the nation's leader... the nationwide data base of a Company called TRW.

For more information, call your local TRW representative or write:

TRW Credit Data

SERVICES

[redacted] City Parkway West, Suite 400
Orange, California 92668
Attention: Customer Support

TRW